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An Assessment of the Costs, Benefits, and Overall Impacts of the State of Ohio's Economic Development Programs: Executive Summary

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An Assessment of the Costs, Benefits, and Overall Impacts of the State of Ohio's Economic Development Programs

Final Report

Prepared for
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and
The State of Ohio

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SECTION I: INTRODUCTION

A. ACKNOWLEDGEMENTS

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Senator Charles Horn, Chairman, OEDS Advisory Committee
Senator Charles Horn, Chairman of the Ohio Economic Development Study Advisory Committee, deserves special credit and recognition for his vision and leadership in convincing the State of Ohio that this study was needed, and for his hard work in leading the OEDS Advisory Committee over the past 20 months. The Committee, under Senator Horn's leadership, will now turn its attention to helping the State of Ohio to further evaluate, adopt, and implement appropriate recommendations growing out of this study.

Economic Development Study Advisory Committee Members
The Advisory Committee has played an enormously important role in the project through its ongoing review of research materials, and through the ideas it has contributed in the recommendations phase of the project. The Committee's future role in helping the State of Ohio to implement top priority policy recommendations will be crucial. A very special thanks to the other six Advisory Committee members: Senator Ben Espy; Representative E.J. Thomas; Representative Ed Jerse; Joseph Robertson, Assistant Director of the Ohio Department of Development; Dr. Lucille Ford, Professor of Economics and Provost Emeritus, Ashland University; and Charles Gerhardt, Director of Business Development, Cinergy Corporation. We also thank Rick Weddle, the former President of the Toledo Growth Partnership, for his important early contributions in helping to get the project organized and initiated.

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Ohio Department of Development
The Ohio Department of Development (ODOD) administers the twelve economic development programs being evaluated in this study. ODOD staff members have provided much of the program data used in the analysis.

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Ohio General Assembly
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Contributions to this Report
Donald T. Iannone, OEDS Project Director, was the primary author of this final report. He was assisted by Jean Spackman, who helped to edit the final report. Several people contributed to our ability to produce this report. The report draws upon the large body of research conducted by many project team members. A list of all study team members is included in an appendix to the report. These individuals' work laid the foundation for the analysis and recommendations described in this report.

Donald T. Iannone, Project Director
Ohio Economic Development Study Project
Cleveland, Ohio
May 28, 1999

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PREFACE

This report presents the major findings, conclusions, and recommendations of the Ohio Economic Development Study, undertaken by a national research team organized and led by Cleveland State University's Urban Center.

This study effort is one of the firsts of its kind to provide a fully comprehensive assessment of the performance of a state's economic development programs. This report builds upon the nearly 50 staff and subcontractor research reports and working papers prepared for the Ohio Economic Development Study Advisory Committee and the Ohio Office of Budget and Management during the past 18 months. The most important aspects of these various reports have been captured in this final project report. A complete list of project reports and publications is provided in an appendix.

The report's Executive Summary provides a concise digest of the study's major highlights and recommendations. This is recommended reading for those wishing to quickly grasp the essence of the project. Chapter 1 on study purpose, goals, objectives, and methodology is essential reading to understand what the study team intended to accomplish and how the team approached its work. We provide a definition of key terms used in the report and a statement of our research assumptions in Chapter 2.

The primer on economic development incentives in Chapter 3 provides a national perspective of key issues related to state and local economic development incentives. The discussion about performance-based economic development strategies is especially important to the case the study team makes for Ohio's incentive programs being guided by more precise performance measures in the future.

Chapter 4 and Appendix III create an overall context for the individual program analyses. Ohio's current economic competitive position is examined in Chapter 4. An overview of Ohio's current economic development strategy is provided in Appendix III. This overview describes how the state's tax and financial incentives operate within the context of Ohio's current overall economic development strategy.

The major findings of the Tax and Incentive Model (TAIM) Analysis of Ohio economic development programs are presented in Chapter 5. This analysis determined how Ohio's main incentive programs affect Ohio's competitive position for new business investment.

The analytic results of our assessment of Ohio's twelve economic development programs and initiatives are contained in Chapters 6 through 18. These 12 state programs were selected for evaluation by the State of Ohio and the OEDS Advisory Committee. A common format guides the presentation of information about each state program's performance. This format includes statements on methodology, program goals and structure, major evaluation findings, and conclusions. (Although not included in the study scope, Chapter 13 presents an analysis of the Ohio Enterprise Bond Program for background purposes.)

The study team has endeavored to identify relevant options in terms of what future action should be taken by the State of Ohio to address program shortcomings and problems and build upon program strengths and opportunities.

Chapter 19 discusses cross-cutting economic development and public finance policy issues identified through our analysis. This includes a discussion of many of the broader impact questions raised by the OEDS Advisory Committee, such as the impact of Ohio's economic development programs on the geographic pattern of development in Ohio sub-state regions. This chapter discusses key issues related to the interactive and cumulative effects of the state's incentive programs, as well as the relationship between the structure of state tax policy and available state economic development incentives.

The report concludes with Chapter 20, the study team presents its recommendations on what actions it believes the State of Ohio should take in the short, intermediate, and long terms to respond to critical issues identified by this study. In addition, we a rationale for our preferred recommendations is provided.

Supporting data and documentation are provided in the Appendices section. Only essential data tables are appended. The various staff and subcontractor research reports provide in-depth information about specific programs, analyses, and other information for those interested.

As the project director, I would like to express my deepest thanks and appreciation to the 25 hard-working project team members. The creativity, responsiveness, and conscientiousness of these individuals made my management job much easier. I thank each and every one of them.

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SECTION II: EXECUTIVE SUMMARY

Study Purpose and Scope

The Ohio Economic Development Study examines the State of Ohio's twelve largest economic development programs, providing an in-depth analysis of these programs' fiscal and economic costs, benefits, and overall impacts on state government. The study assesses Ohio's major tax abatement, tax credit, business loan and grant, economic development infrastructure, job training, and technological innovation programs. By intent, these programs were created to aid Ohio companies, communities, and workers in increasing competitiveness for economic development. Some of these initiatives have existed for almost a quarter century. Others are more recent additions to Ohio's competitive arsenal.

While by law, annual reports are prepared and submitted to the Ohio General Assembly on many of Ohio's economic development programs, this is the first-ever detailed and comprehensive financial analysis of these programs' impact and significance. Most of these programs operated in a more relaxed atmosphere until the early 1990s, when state lawmakers demanded that many of these programs, such as the Ohio Enterprise Zone Program, operate under much tighter guidelines and provide more detailed accounting of how their funds were invested in economic development projects.

To support these program analyses, a detailed investigation of Ohio's economic competitive position, and an assessment of state government's fiscal health were conducted. These background analyses gave insight into possible trade-offs between the state's continued use of project-level business assistance programs versus making reasonable changes in Ohio's business tax policies.

The study's primary findings, conclusions, and recommendations provide a solid foundation for improving state program performance and accountability in the future: two issues receiving increased attention by the Ohio Legislature. The study was undertaken as a source of advice, counsel, insight, and inspiration about Ohio's current and future economic development strategy. It was commissioned by the Ohio Office of Budget and Management, and was prepared for the benefit of the taxpayers and citizens of the State of Ohio.

The appointed seven-member Ohio Economic Development Study Advisory Committee, led by Ohio Senator Charles Horn (R-Kettering), gave ongoing supervision and oversight to the thorough 18-month investigation. The Cleveland State University Urban Center led the study team, and used a team of nationally prominent consultants and university researchers to conduct the research required to answer the study's major policy questions.

Project Goals

The study scope focused on four key goals:

1. **Existing Program Evaluation**: Conduct an analysis of the State of Ohio's 12 major economic development programs (business assistance programs), and assess the performance of these programs in meeting their current goals.

2. **Economic Competitiveness**: Compare the economic health of the State of Ohio and the effectiveness of Ohio's economic development programs with the economic performance and program effectiveness of states that directly and routinely compete with Ohio

3. **Future Economic Policy and Program Options**: Identify the best means for ensuring the growth and stability of the state's economy shall include an analysis of the state tax structure as applied to businesses operating within Ohio. Provide an improved economic development model that will enhance Ohio's future economic competitiveness.

4. **Ongoing Monitoring and Evaluation System**: Develop procedures to be used by the Ohio Department of Development and appropriate other state agencies for the evaluation of existing and future economic development programs. Prepare recommended guidelines for the administration and monitoring of each of the evaluated state economic development programs. Prepare recommended actions needed to strengthen the state's competitive position relative to other competitor states.

Study Focus

The State of Ohio has played an active role in economic development since the early 1960s. The Ohio Department of Development uses a wide variety of programs and strategies to assist communities and businesses with economic development projects. Some of these programs, like the Community Reinvestment Area (CRA) Program, have been around for a very long time. Other programs, like the Job Creation Tax Credit Program, are relatively new. The OEDS Advisory Committee, in consultation with the State of Ohio, selected twelve of state economic development programs for investigation in this study. These were:

1. Enterprise Zones
2. Job Creation Tax Credits
3. Machinery and Equipment Tax Credits
4. Business Development Grants
5. Business Development Loans
6. Roadwork Development Grant Program

7. Industrial Jobs Training Program
8. Community Reinvestment Areas
9. Thomas Edison Technology Program
10. Tax Increment Financing Districts
11. Joint Economic Development Districts
12. Minority Business Loan Program

In addition to conducting analyses of these 12 economic development programs, the study team assessed Ohio's economic development position compared to 10 competitor states, and it conducted various analyses of the State of Ohio's tax policies and overall financial conditions. The results of these analyses provided a meaningful context in which to judge the performance of the 12 programs.

Major Study Issues

Economic development is by nature a complex public policy issue. The financial aspect of economic development is greatly complicated by a host of economic, political, and social factors. Several complex issues were examined by the Cleveland State research team, although definitive answers to many of these questions were not possible at this time due to limited data, research methods limitations, and other issues. These issues reflect the very broad scope of this study, which was valuable and appropriate in permitting an overall understanding of Ohio's programs. The broad study scope did limit the amount of time and attention the study team and advisory committee could devote to individual programs and issues. The project examined the following issues:

1. **Net Fiscal and Economic Impacts**: What are the net benefits and costs of Ohio's economic development incentives to the state treasury and local government budgets? Do these programs produce a net positive or negative overall impact? What impact do these programs have on corporate profitability?

2. **Interactive, Cumulative, and Long Term Impacts**: What are the long-term interactive and cumulative impacts of Ohio's incentive programs at the state and local levels? Are these impacts consistent with the goals guiding these programs?

3. **Economic Development Goals:** What strategic goals are served by Ohio's economic development incentives presently, and what goals should guide the use of these programs in the future?

4. **Business Location and Investment Impacts:** What impacts do Ohio incentive programs have on business location and investment behavior across the State of Ohio? Do these programs encourage firms to locate more often in urban, suburban, exurban, or rural areas?

5. **Industry Effects:** Do certain industries benefit more than others from Ohio's economic development programs? Which industries benefit most? Which benefit least? Which should receive the most benefit in the future?

6. **Geographic Area Effects:** Do certain geographic areas benefit more than others do from Ohio's economic development programs? Which geographic areas benefit most?

7. **Incentive Versus Tax Policy Changes:** In the future, is the State of Ohio better off using project-related incentives or making significant changes in its business tax climate to strengthen its economic competitiveness? What mix of the two would be most beneficial to Ohio's future competitiveness?

8. **Regional Pattern of Development Effects:** How does the use of Ohio's economic development incentives contribute to the spatial pattern of development occurring in Ohio counties and regions? Does the use of these programs contribute in a measured way to urban sprawl or the loss of agricultural farmland?

9. **School Finance Impacts:** How does the use of incentives affect Ohio public school finances? Can we measure the impact at the present time? How can Ohio's future educational strategy be better integrated with the state's future economic development strategy? During 1998-1999, the State of Ohio will spend 37.4% of its total budget on education (K-12 plus higher education).

10. **Future State Development Role:** What is the most appropriate role of state government in leading and supporting economic development in Ohio regions and communities? What role should the State of Ohio play in financing growth and development?

11. **Future Performance-based Incentive Management Model Leadership:** Should Ohio attempt to become a national role model for the performance-based management of state business incentives? What is required to provide this leadership, and what benefits will it provide to Ohio?

12. **Contributions to Long Term Competitiveness:** Do incentives contribute to long-term state economic competitiveness? Does the use of incentives reduce business and area economic competitiveness in any way?

Major Study Findings and Conclusions

Ohio Economic Competitiveness

1. **Recent Ohio Economic Growth**: Despite evidence of strong business investment and reinvestment in Ohio over the past 8 years, Ohio's economy, measured in terms of gross state product, employment, industry output, and personal income, has grown more slowly than many of its competitors. Ohio has also grown more slowly than the nation as a whole.

2. **Future State Economic Growth**: Ohio is expected to grow at a slower rate than many of its state competitors over the next decade. This is expected to be true in terms of growth in economic output, employment, and personal income. The slowdown in the national economy will reduce future economic growth in Ohio, as many international markets continue to struggle in places like Asia and Russia.

3. **Lagging Gross State Product Performance**: In large part, Ohio has experienced a slower increase in state total economic output because of industry mix factors. The Ohio economy is composed of many slower growing industries, such as durable goods manufacturing. Ohio's mix of service industries is also lagging the nation, as well as service industries found in other states.

4. **Slower Employment Growth Performance**: Ohio's slower employment growth can be explained in large part by fairly high levels of capital investment by its major industries that are designed to increase labor productivity. A second cause has been a tight skilled and technical labor supply across the state, which is a concern in most of Ohio's metropolitan areas. Both conditions are national trends that affect a large number of other states.

5. **Slower Personal Income Growth**: Ohio citizens have experienced some erosion in personal income growth over the past several years. This is a cause for concern. This situation results from the long term decline in the overall number of high-paying manufacturing jobs across the state, and the faster growth of lower-paying service sector jobs in Ohio.

6. **Uneven Regional Economic Growth**: In many ways, states are 'confederations of local economies.' That is, the whole is only as strong as its individual parts. Significant differences exist in the economic health and vitality of Ohio's major urban and rural economies. They grow at different rates due to industry mix and other factors. All of Ohio's economic regions have grown more slowly in the 1990s than their performance in the past decade. They are forecasted to continue to grow at a slower rate in the next decade, in large part because of industry mix and national economic trends.

7. **Current State Business Competitiveness Rankings:** Measuring business climate quality is a tricky task. Most economists still do not rely heavily on business climate rankings as an indicator of competitiveness, yet these rankings remain popular in the eyes of the media and in political circles. Currently, Ohio comes out about in the middle when it is compared to its border and non-border competitor states. Ohio's standing has not changed markedly in the past decade.

8. **Labor and Tax Costs**: While Ohio labor costs are approaching parity with the nation, Ohio is still a higher cost state in which to conduct business on an overall basis than many of the states Ohio regularly competes with. Ohio business taxes, including tangible personal property, unemployment insurance, and workers compensation, are higher than those found in many of its key competitor states.

9. **State Government Fiscal Conditions**: The State of Ohio's financial conditions are stronger than they have been for a long time. States have been one of the major beneficiaries of our recent national economic growth surge. Local governments have not been so lucky, which suggests that local government reliance on state financial aid will continue to grow in the future. In part, this is a function of reduced federal aid to local governments. The other cause is the postponement of major improvements to schools and physical infrastructure. Ohio's educational funding debate is just one indication of this trend. The question is what lies ahead with a slower growing national economy that will produce less benefit for state government?

10. **Work Force and Education**: Human capital is the 'capital of the future.' Ohio lags many of its competitors in fashioning an appropriate human resource development strategy for the future. Our school funding problems remain unresolved, yet an even larger and more important economic issue is how we will provide the human resources required by the industries of the future. Strictly giving schools more money will not solve this problem.

11. **Information and Communications Infrastructure**: A key future concern is the short and long term effect of electric power de-regulation, and other utility industry issues that lie ahead. Close on its heels, is the issue of the condition of Ohio's telecommunications and computer infrastructure to support new industry development. These are key issues that will shape Ohio economic competitiveness.

Ohio Economic Development Programs

1. **State Economic Development Strategy**: Ohio's economic development strategy since the early 1990s has been to capitalize on the favorable increases in overall national economic growth. We may not have this luxury going into the next decade! While our state economic growth is lagging in many respects, business capital investment has been extremely healthy, suggesting that companies are building the capacity for future growth in Ohio.

2. **Current State Incentives Mix**: Ohio's business incentive programs are largely the same as those found in other states, with a couple exceptions. Like other states, we have come to rely increasingly on tax incentives to lower project costs. The Tangible Personal Property Tax is Ohio's most onerous business tax. It explains to a high degree why Ohio has so many enterprise zones. Like other states, Ohio has increased the use of tax credit programs to stimulate both capital investment and job creation. The latter two programs are among the state's most successful economic development programs.

3. **Incentives and Competitive Disadvantages**: Ohio's mix of incentive programs is a function of two factors. First, this mix reflects the type of industries found in

the state and their business expansion needs. Second, the mix reflects Ohio's political geography. In short, the type of incentives that we use is a function of our state and local governance structure. This is why tax-based competition is a controversial issue in Ohio.

4. **Discretionary Business Incentives**: Nationally, discretionary loan and grant incentive programs have not grown markedly in recent years. These programs include a myriad of special loan and grant programs offered to industry. Ohio's reliance on these programs has lessened somewhat, but not dramatically. They are not likely to grow in any great measure in the future, according to our investigation.

5. **Future of Incentives**: Several new developments are in store for state incentive programs in the future. First, states will continue to use these programs, even without good data on their short and long term impacts and effects. Second, performance-based incentives are the wave of the future. In short, states will work harder at trying to account for the true costs and benefits of these programs in the future, and they will demand more of businesses using these programs. Third, more states will rely on tax reform as a strategy to create better balance in who and what taxes they rely upon. And finally, inter-governmental tax competition is expected to increase in the future as all levels of government battle for scarce tax revenues.

6. **Goals and Strategies**: Ohio is a 'doer' state, not a 'planner' state. The good news is that our state economic development strategy has been aggressive and effective in helping businesses expand and grow in Ohio. The bad news is that it is weak on planning and strategy, which hampers our ability to understand how much of difference our business assistance efforts actually make to the state economy and the state treasury. This is the most serious impediment that we see in determining how much cost and benefit are created by Ohio's economic development programs. While Ohio has general economic development goals that guide its efforts, it is not clear how the state's programs relate to these goals or how much impact they have in achieving them. These are serious problems that must be corrected in the future!

7. **Unclear Policy Expectations**: What causes a state to under-plan and strategize related to its goals? In a word, unclear overall policy expectations. This ambiguity stems in part from political differences, but the problem goes beyond this issue. Historically, Ohio State government officials have not set clear, performance-based expectations of how they want their economic development programs to perform. This is a serious issue that must be addressed before a future economic development strategy is put into place.

8. **Costs and Benefits**: How much do Ohio's incentives cost in the short and long term? In exchange, how much benefit do they produce and to whom? The Ohio Economic Development Study has produced the best possible estimates of these

costs and benefits. Two sets of problems have hampered this analysis. First, incentive program designs do not include clearly articulated goals and program strategies. It is always easier to evaluate programs that have been well planned. Second, serious data availability problems and other methodological issues have held us back. As a result, our estimates are better in measuring direct costs and benefits than more comprehensive costs. In some cases, we were successful in measuring costs and benefits in a fuller sense.

9. **Payout and Return**: State incentives that rely heavily upon appropriated state funds, and those that depend upon forgoing state tax revenues, have the greatest impact on the state treasury. For this reason, tax credit programs, loans and grants, and other similar programs have cost the state more. On the flipside, these programs also offer the State of Ohio the greatest paybacks. The Job Creation Tax Credit Program, the Machinery and Equipment Tax Credit Program, the business development loan programs, and other tools fall into this category.

10. **Program Administration**: Ohio's economic development programs have been fairly well managed in an overall sense. In general, we find that they have met their current legislative requirements. Customer satisfaction is good among businesses using the state's programs. Staff quality and responsiveness are both favorable.

11. **Overall Conclusion**: Ohio has followed an aggressive business-oriented economic development strategy that has relied fairly heavily upon incentives. This has been the case because it has had to follow this strategy because of serious state economic climate deficiencies, not the least of which is the Tangible Personal Property Tax.

Ohio's economic development strategy has produced a certain measure of success. Business, local government, and other stakeholders have been generally in agreement with this strategy, although Ohio's public and private sector development partners are looking for greater leadership in approaching economic development in a more global, comprehensive, and integrated manner in the future.

Ohio's current approach mirrors the current national economic development marketplace. Ohio has used its business incentive programs in line with overall legislative and policy requirements and expectations, although we find these expectations to be too broad and insufficiently performance-based. The State of Ohio has a lot of hard work ahead in creating and implementing a performance-based economic development system for the future.

It is the study team's overall conclusion that, despite all their problems, Ohio is **NOT READY** to give up its economic development incentive programs and rely solely on tax policies or the private marketplace to provide sufficient economic opportunities for its business sector and private citizens. To haphazardly discard these programs, or as some say, "unilaterally disarm," is both political and economic suicide.

It is our opinion that the issue goes far beyond making a choice between public incentives or improving state business tax policies. The simple answer is that in Ohio's case both strategies are necessary. Simply choosing sides on this debate will not solve the underlying problems associated with the Ohio economy and how its major stakeholders wish for it to treat them.

We believe that Ohio officials have much hard work ahead in the next couple years to get their programs on a stronger performance track. Moreover, the State of Ohio has to face some very complex decisions about future economic priorities. The State's current model for economic development is incapable of recognizing and dealing with the complexities raised by this report, which leads us to conclude that the central deficiency to be remedied is the lack of strategic direction. Once this has been established, the State of Ohio will know more precisely how its economic development finance programs should be used.

Ohio is both an "over-achiever" and an "under-achiever" when it comes to economic development. The state has exceeded most in-state and national economic forecasters' expectations in terms of business growth and job creation. Yet, many parts of the state, both urban and rural, have under-achieved in terms of economic development. The State of Ohio has many resources that it currently does not use effectively to promote and assist economic development. The leading one is the State of Ohio's budget, which like most states, reflects hard political realities. The starting point for Ohio's new economic development strategy should be to view the whole of state government, all $36 billion of it annually, as an intentional and unintentional actor in the large, complex, and changing Ohio economy. This leads us to the recommendations made regarding a comprehensive state development budget and other things that cause state officials to think and act more holistically about the state's primary economic interests.

Future Ohio Economic Competitiveness Issues

As indicated earlier, Ohio ranks roughly in the middle of the eleven states examined in the study in terms of overall state business climate competitiveness. Our interviews and meetings indicate that most state and local economic development officials are NOT satisfied with this current position, and they want to see State of Ohio officials take additional action to improve the Ohio's economic competitiveness in the future. For this to occur, a more intense focus on resolving underlying economic competitiveness issues is required by the Legislature and the Governor. Greater cooperation with local government and the private sector will also be necessary.

The CSU analysis indicates that Ohio's competitive position is unlikely to improve significantly **WITHOUT** major changes in state and local (regional) business climates in the near future. These changes include improvements in three general areas: 1) business incentive program performance; 2) state business tax policies; and 3) overall statewide economic development strategy.

Without these changes, it is quite conceivable that some of Ohio's competitors may actually gain additional competitive ground on Ohio in the foreseeable future. The project findings point to this future reality. All signs point to the continued aggressive use of business incentives and state business climate improvements by Ohio's competitor states in the foreseeable future. We also see stepped up efforts by most states to improve the performance of their incentive programs. Accountability and equity concerns about state business incentives will grow even stronger in the future. This observation confirms Ohio's wisdom and foresight in undertaking this study to address these looming concerns. In short, if Ohio takes appropriate action on this study, it will be better prepared than many of its competitors to cope with these issues.

CSU was asked to recommend future policies and strategies that would help improve Ohio's competitive position in the future. At the top of the list of proposed state business climate improvements is the recommendation to reduce, and eventually, eliminate Ohio's onerous Tangible Personal Property Tax, which deters business investment and job creation. This tax was also found by the study to be the major reason why Ohio communities use enterprise zones so aggressively in their business retention and expansion efforts. The study team recognizes the current difficulty in changing this tax because of the importance of these tax revenues to state and local government operations and public schools in Ohio, but the team believes that the Governor and Legislature should act immediately to change this tax.

While Ohio has emerged fairly strong from the recession of the early 1990s, the study results indicate that Ohio has experienced a significant long term decline in its national share of population, employment, personal income, and gross state product over the past quarter century. This long-term pattern of decline has its roots in industry and area economic trends started in the late 1970s. While Ohio has made economic progress in the past decade, it continues to lose ground because of several factors:

1. Its driving manufacturing industries have faced enormous globalization pressure and increased competition. These industries produce important growth opportunities for Ohio, but their growth rate has slowed in response to global competitiveness factors.

2. Ohio's economy is large and complex in nature. This implies that state and local policy solutions to these economic problems are more difficult to achieve.

3. Many of Ohio's competitors have been burdened less by problems of economic decline and restructuring and have displayed greater economic agility in recent years. This is especially true of smaller, faster growing states that rival with Ohio on a regular basis.

4. While Ohio has made improvements to its state business climate in the past decade, its competitors have mustered even greater competitive advantage based upon business tax policies and other changes.

CSU considers this long-term loss of competitive strength to be a serious reason for state policy makers' concern. It suggests that the State of Ohio and its local government and private sector partners need to do more, and not less, to support economic development in the future. The key question is which strategic actions would help Ohio the most in becoming: 1) more effective in achieving its overall economic development goals; 2) more efficient in using public and private sector capital to produce greater broad-based prosperity; and 3) more equitable, or fair, to the greatest number of industry, government, and citizen stakeholders.

Are the state's current business incentive programs doing a sufficient job in bolstering state economic competitiveness? In general, CSU researchers believe that the State of Ohio has done a reasonably good job in its economic development efforts in the recent years, but not good enough to counter the underlying long-term trend of declining national economic share. More powerful economic development tools, like changing state business tax policy or adopting a Comprehensive State Development Budget, would greatly strengthen state officials' impact on the state's economic competitiveness. While State of Ohio officials have had many programs at their disposal, they have lacked the "power tools" to make a substantive impact on the state's competitive position. The CSU recommendations argue that the State of Ohio should develop new "power tools" for economic development.

This raises the basic question concerning what are reasonable expectations about the economic benefits to be produced by the state's economic development programs, and of course at what costs. CSU would make two observations in this regard. First, state and local officials have given inadequate attention to the issue of performance expectations. The issue is currently viewed by state officials as meeting annual reporting requirements, as opposed to managing for high-quality results!

Second, there is no consensus at the state or local level in terms of how much of a difference Ohio's economic development programs should make over time. This study's recommendations can help achieve this consensus in the future. The study team believes that the State of Ohio's economic development programs should be guided by much more specific expectations about their intended impacts on business and industry competitiveness, and those economic benefits to be produced for state government, Ohio communities, and Ohio citizens and taxpayers.

Would changes in Ohio business tax policies produce a sufficient change in Ohio's competitiveness? This is a very complex question to answer. We do not believe that just changing business tax policies will be enough. In 1995, the Ohio Commission of Taxation and Economic Development identified a number of appropriate changes to the state tax system. Few of these recommendations were acted upon because a realistic action plan could not be identified by the Tax Study Commission or the State of Ohio. The CSU team is insistent that this outcome should NOT be repeated in this study. Recognizing that "politics is the art of the possible," we believe that both the

Administration and Legislature must be willing to compromise to work toward the overall good of the State of Ohio and its citizens.

The OEDS project findings re-affirm that the earlier Tax Study Commission report were on the right track. For one, the state's Tangible Personal Property Tax must be at least significantly reduced, and hopefully eliminated, if Ohio is going to improve its competitiveness in the future. While school funding and a myriad of other state government finance priorities exist, it is the view of the CSU team that there will NEVER be a perfect time in the future to make these tough decisions. The State of Ohio will always have other priorities that prevent it from taking this action. We would urge the State of Ohio to move forward with a realistic plan to reduce this business tax over the next 10 years. This process should begin immediately.

CSU researchers have explored a number of replacement tax options. Three are suggested here. One of these options is to introduce an increased tax on commercial and industrial land--a Commercial and Industrial Land Tax--assuming that state constitutional objections to this proposal can be overcome. We anticipate significant resistance to this proposal by the real estate community and some property owners because of these tax changes. We believe that a distinct advantage of this proposal is its tendency to reduce urban sprawl through more efficient use of land. Overall, we doubt that the Land Tax will receive sufficient state and local government support.

A second option is to improve the distribution of business taxes across industry sectors. Manufacturing has historically been the leading business tax generator in the state. Many states are examining new strategies to increase taxes on services, especially rapidly growing electronic commerce transactions. This could help ease some of the pressure on manufacturing and distribution firms. The tax literature indicates that competition among various levels of government (federal, state, local) to tax the Internet and electronic commerce will increase greatly in the near future. The State of Ohio must proceed with caution in this arena to avoid the creation of a competitive disadvantage for these emerging industries in the state in the future.

Our analysis indicates that the business sector's overall contribution to the state's total tax base has declined markedly over time. It also indicates that manufacturers pay a disproportional share of total business taxes in Ohio. This explains in our mind why manufacturers receive the lion's share of Ohio's business incentive dollars year after year. In short, incentives help to reduce the manufacturing sector's net state tax contribution. It is also true that manufacturers place the heaviest demands on public infrastructure, place the heaviest stress on environmental resources, and create other public sector costs as a direct and indirect outgrowth of their operations. All of these issues must be considered by the State of Ohio as it plots a reasonable business tax strategy for the future.

A third option would be to devise new user fee systems for certain types of public services that help to make up for the lost Tangible Personal Property Tax revenues. An equitable approach to financing development-related infrastructure may be worthy of

consideration. Development impact fees, more innovative uses of Tax Increment Financing (TIF) districts, and other financing approaches are growing in popularity in many states because of the absence of public capital to develop new physical infrastructure. A combination of these three options may be worthy of the state's consideration.

Action Recommendations Overview

The study team has identified a set of strategic actions that will help the State of Ohio address three major goals designed to make the state's economic development programs more "performance-based." (See definition below.)

These three goals are to:

1. Improve the accountability and performance of the state's current economic development programs. While state officials have made progress in this area, more is needed in the future, especially in increasing the economic return produced by these programs for state and local government.

2. Contribute to long term improvements in Ohio's business and economic climate. Necessary actions include reducing and/or eliminating the Tangible Personal Property Tax, improving the balance among Ohio industries paying taxes, and improving the balance between business incentives and reliance upon business tax policy changes.

3. Help position Ohio with a more cost-effective, better strategically focused, and more realistic economic development strategy for the future. We believe that the State of Ohio needs to develop and implement a comprehensive strategy for economic development that incorporates the eight recommendations made in this report.

What does it mean to make economic development programs more performance-based? Economic development programs are defined as "performance-based" when they meet the following six conditions:

1. They are guided by clear, unambiguous strategic goals.

2. Their performance is judged in terms of their intended and unintended effects in the short, intermediate, and long terms.

3. They consider the industry, geographic, population, labor market, state and local governmental finance, and environmental impacts of using the programs.

4. They are budgeted annually and account for their full costs and benefits to the State of Ohio and Ohio local governments.

5. They strive at a minimum to achieve breakeven financial performance for state and local government, considering their full costs and benefits.

6. They provide adequate legal recourse for state and local government against those companies that do not meet the requirements of their negotiated incentive agreements.

The recommendations fall into three implementation action categories:

1. Short term actions over the next 12-18 months to strengthen existing economic development programs' performance.

2. New ongoing management and budgetary policies and strategies instituted over the next 18-30 months to strengthen state program performance and to increase their impact on overall statewide economic development goals.

3. New economic development initiatives that address concerns and priorities not receiving sufficient state government attention through existing programs. These actions should also be undertaken in the next 18-30 months.

Note: The timeframes refer to the time required to devise and begin implementation of the action initiatives. Most immediate progress should be encouraged in the short-term action category.

Group 1: Recommended Short Term Actions

The State of Ohio should act decisively to improve its existing economic development programs over the next 12-18 months. These actions **SHOULD NOT WAIT** until the state addresses its long-term business tax policy needs. The State of Ohio should take the following immediate steps relative to the OEDS study results:

1. The Economic Development Study Advisory Committee (EDSAC) accepted the final study report as complete and worthy of further investigation for implementation by the State of Ohio at its May 3, 1999 meeting. This action signifies the official completion of the Advisory Committee's mission and responsibility relative to this project. We believe that the next step is for the Committee Chairman to:

    - Communicate in writing the Advisory Committee's overall recommendations to the State of Ohio no later than June 18, 1999.
    - Arrange for official briefings on the final study results with the Governor, the Ohio General Assembly, and other appropriate bodies. These briefings should be conducted in July and August of this year.

2. The OEDS Advisory Committee should convey in writing to Ohio Governor Bob Taft and the leadership of the Ohio General Assembly that the Committee

encourages the State of Ohio to establish an official joint Administrative and Legislative Implementation Task Force (ITF) to develop agreement on the details of how the study recommendations will be responded to by the State of Ohio. Letters should be requested from Governor Taft and from the leaders of the Ohio House and Senate indicating their commitment to these future discussions. This Task Force should be charged with coming up with a consensus plan for using the recommendations to improve Ohio's economic development programs. This plan should be delivered no later than September 1, 1999. This joint Task Force should be charged with:

- Clarifying the policy intent and goals to be achieved by the recommendations.
- Defining the most appropriate legislative and administrative actions required to address the study recommendations.
- Establishing a specific implementation work plan and timetable.

3. The OEDS Advisory Committee should provide immediate written guidance to the Governor and Legislature on the re-authorization of the Ohio Enterprise Zone Program and the Machinery and Equipment Tax Credit Program. Both programs have been proposed by Governor Taft for five-year extensions in his recent budget proposal. The position of the CSU study team is that re-authorization should ONLY occur if the two programs are re-designed to meet the requirements of the proposed State Comprehensive Development Budget (SCDB) and the State Incentive Management System (SIMS) Model. The CSU team recommends the following actions be taken relative to these two programs:

   - The Machinery and Equipment Tax Credit Program should be extended to December 31, 2002 provided that the program is redesigned to reflect the requirements of the State Incentive Management (SIMS) model, the Comprehensive State Development Budget, the new 5-layer performance measures system, and the new policy justification framework. Once these changes have been made, the program should be submitted to the Legislature to be re-authorized for a 5-year period.

   - The Enterprise Zone Program should be extended until June 30, 2002, during which time the program is redesigned to reflect the requirements of the State Incentive Management System (SIMS) model, the Comprehensive State Development Budget, the new 5-layer performance measures system, and the new policy justification framework. The CSU study team also recommends that the Strategic Development Zone model be given consideration to replace the current Enterprise Zone Program model. The new Strategic Development Zone Program should be authorized for five years, upon meeting these

redesign requirements. A plan to coordinate the activities of zones in the same Ohio economic region should be given consideration as well.

4. Appropriate public presentations should be made by the State of Ohio and the CSU study team on the principal study findings and recommendations to state and local officials to inform them about study results, and to gain their input on implementation. Target audiences include:

    - Governor Bob Taft
    - Ohio General Assembly
    - Local government officials
    - Key state and regional business and economic development groups
    - Groups reflecting the general public interest in Ohio

Group 2: New Management and Budgetary Policies and Strategies

The CSU study team is recommending a series of changes in how Ohio develops budgets for and manages its economic development programs. These recommendations fall within the 18-24 month timeframe. During this time, the State of Ohio should prepare implementable plans to accomplish each of these recommendations. Each of these recommendations is described below. These include:

1. Adopt a new policy framework defining eight justifications for state involvement in economic development. The current justification for state intervention in economic development is weak and insufficient to motivate the State of Ohio to take long-term action to strengthen to business and economic climate for economic development. Eight new justifications, or rationales, are identified in the first recommendation. (Recommendation #1)

2. Develop and implement a new performance management system to monitor and evaluate all of the state's economic development programs. The State of Ohio's current system is very inadequate in assessing the state's economic development performance. A five-layer monitoring and assessment system is recommended. (Recommendation #2)

3. Develop and implement a Comprehensive State Development Budget to provide a fuller accounting of state expenditures on economic development. Presently, the State of Ohio does not give a full accounting of its direct and indirect expenditures on economic development. Foregone business tax revenues are not fully reported as development expenditures, and they should be. On the other hand, the state is not capable of accounting for the larger stream of economic benefits produced by its programs and policies. The proposed Comprehensive State Development Budget will capture this fuller definition of both development costs and benefits. (Recommendation #3)

4. Develop and implement the State Incentive Management System (SIMS) Model to guide the planning, design, management, and evaluation of all state economic development programs on an ongoing basis. The state currently follows a piecemeal approach to incentive program design. In large part, political rules are followed in deciding which development tools the State of Ohio should create and use. The SIMS Model will make this process more rational in the future. It will also ensure that the large picture is considered as programs are planned. (Recommendation #4)

5. Create and implement the Buckeye State Development Fund as a flexible financing pool for businesses and communities to make economic development investments. The fund would initially be capitalized with five of the state's current economic development loan and grant programs. (Recommendation #5)

Group 3: Proposed New Economic Development Initiatives

1. Four new economic development initiatives are needed to increase Ohio's economic competitiveness in the future. Simply making adjustments to the state's economic development programs is not enough to improve Ohio's competitive position. CSU recommends the following new initiatives:

2. Create and implement the Ohio Quality Jobs Initiative to improve the state's workforce competitiveness. This initiative would motivate a greater number of career-oriented and well-paying jobs to be created in Ohio's goods and services industries. (Recommendation #6)

3. Create and implement the Ohio Productive Growth Initiative to reduce urban sprawl, protect needed rural farmland, and encourage businesses and citizens to follow more productive strategies to grow and develop in the future. This initiative would help put Ohio's future growth on a more productive track in the next decade. (Recommendation #7)

Create and implement the Ohio Strategic Industries Initiative to focus future economic development efforts on the state's most important and most promising industries and economic sectors. Eight possible targets are suggested by CSU, but a more in-depth analysis of the best targets of opportunities is recommended in the near future. (Recommendation #8)

Economic Development Finance Goals

The State of Ohio must adopt appropriate policy goals to guide the future use of its economic development finance programs. Ohio has no such goals at this time. These goals will ensure that the programs perform in line with future expectations and they will ensure greater economic success in the future. The adoption of these goals will also ensure that Ohio's programs can be properly evaluated in the future.

The CSU study team recommends that the following mission statement guide Ohio's economic development financing activities:

> *The State of Ohio should make strategic investments in those economic development projects that increase state and local economic competitiveness by producing positive-sum economic and fiscal benefits to Ohio communities, regions, industries, and companies.*

Three goals should be considered under this general mission statement:

> **Goal 1:** Strategically invest state financial resources in economic development projects that directly and indirectly increase the economic vitality and prosperity of Ohio communities and regions.
>
> **Goal 2:** Strategically invest state financial resources in economic development projects that increase the competitiveness of Ohio companies and enable them to create high-quality jobs and produce additional tax revenues for Ohio communities and regions.
>
> **Goal 3:** Improve the fiscal performance and accountability of Ohio economic development programs through the implementation of new state policies and a performance-based management system that ensures Ohio achieves its economic development financing mission and goals.

Detailed Recommendations

Recommendation 1: Adopt New, More Relevant Justifications for Development

The CSU study team recommends that the State of Ohio adopt a new, more relevant, and more precise set of policy justifications providing rationales why state government should intervene in economic development. This new rationale should recognize the various relevant conditions under which state government should provide economic development assistance. This new set of justifications should overcome the problems with the current "but for" clause used to justify government intervention in economic development. Ohio, like the vast majority of other states, employs the "but for" clause to justify its involvement in economic development. The essence of this justification says that a private investment or development project will not occur unless the public sector takes action to assist the project to move forward.

There are several problems associated with the "but for" justification. First, this rationale is impossible to prove in a truthful sense. Earlier research on economic development issues has failed to prove the validity of this condition. The argument basically boils down to a government official's willingness to take a business executive's word that government investment in the project is absolutely necessary to project success.

Second, because the "but for" clause must be satisfied, the business receiving incentives and the local or state government agency providing the incentives feel forced to exaggerate the benefits produced by the development project. This over-estimation of benefits tendency misleads the public and other stakeholders. It adds to the current confusion about government's role in economic development.

Third, the "but for" clause is a far too general and simplistic justification for government action. It assumes that all development projects should be judged by the same basic single yardstick to determine their value and worth. This is simply unrealistic.

As an alternative, the CSU study team is proposing that the State of Ohio adopt a new economic development policy framework that uses eight (8) justifications for state assistance to economic development:

1. Occurrence of a private market failure.
2. Problem created by an unintended government policy impact.
3. Occurrence of a sudden and severe economic dislocation.
4. Presence of structural barriers impeding the economic advancement of certain population groups (minorities, disadvantaged populations, etc.).
5. Presence of a serious competitive disadvantage impeding economic development.
6. Situation exists that threatens an established or emerging industry that is strategically important to state and local economic vitality.
7. Opportunity exists that offers the potential to produce an overwhelming positive public benefit.
8. Situation exists to stimulate valuable and significant regional, intergovernmental, or public-private cooperation and benefit.

All state economic development programs should be expected to use these justifications in determining how state resources should be used to support economic development projects. The State of Ohio should work with local governments in Ohio to adopt this same justification system.

Recommendation 2: Adopt New Performance Measurement System

It is the opinion of the CSU study team that the State of Ohio currently uses a very limited and imprecise system to monitor and measure the effectiveness, efficiency, and accountability of its economic development programs. While this system has generally met the various legislative reporting requirements set forth, the current system does not permit a much-needed regular assessment of the broader, long-term impacts of these programs on the economic health and well being of Ohio citizens, industries, and geographic areas.

The CSU study team recommends that the State of Ohio create and adopt a new performance measurement system that allows for the general and detailed assessment of the individual and combined impact of Ohio economic development programs on:

Ohio's major industry sectors, including the most important current industry and economic sectors, and those emerging sectors of the Ohio economy that are likely to play a greater future role in state economic development. This assessment should examine the impact of these programs on both growing and declining industries.

Ohio urban and rural regions and communities, including those geographic areas that are experiencing significant economic growth and economic decline.

1. Ohio's major population groups and labor market segments. This assessment should examine impacts on the entire socioeconomic continuum found in Ohio, from the richest to the poorest. It should examine the impact of these programs on major labor market segments, including the self-employed and unemployed.

2. Ohio's major natural resources, including the state's air, water, and land resources. This assessment should identify impacts on the natural environment in both urban and rural areas across the state.

3. Ohio's public sector, including state and local government finances, the demand for future public infrastructure and other public services, including education.

All state economic development programs should be evaluated according to these five sets of impact criteria. The REMI Model, or another equally appropriate economic analysis model, should be purchased by the State of Ohio to assist with this annual economic impact analysis. A second micro-level analysis model, such as the TAIM Model, should be acquired or developed by the state to evaluate public investments in major economic development projects.

The State of Ohio should work with local governments in Ohio in adopting a version of this performance measurement system at the local level.

The State of Ohio should set annual expectations about the state's economic and fiscal return on its economic development programs. At a minimum, the state should set "break-even" as its goal for its various portfolios of investments. This measurement on the cost side should include all direct and indirect expenditures, including foregone state taxes.

Recommendation 3: Adopt Comprehensive State Development Budget

The State of Ohio currently provides only a partial accounting of its spending for economic development as development expenditures. At the present time, these expenditures are limited to the direct spending by Ohio Department of Development programs. While this approach is similar to those used in other states, it fails to account for the strategic overall influence of state government on Ohio economic growth. For advice, Ohio officials should contact North Carolina and Kansas economic development and budget officials.

The CSU study team recommends that the State of Ohio adopt a Comprehensive State Development Budget (CSDB) as an annual instrument to provide a full annual accounting of these direct and indirect expenditures. This accounting should include three types of expenditures:

1. Direct and appropriated development expenditures (Department of Development).
2. Indirect, appropriated development-related expenditures by other agencies (Board of Regents, Bureau of Employment Services, Department of Agriculture, Department of Education, Department of Transportation, Ohio Arts and Sports Facilities Commission, other appropriate state departments).
3. Foregone tax expenditures related to development (all business tax incentives creating a cost to state and local governments).

As a part of the state's biennial budget process, the State of Ohio should prepare an assessment of how the CSDB impacts the following performance measure categories:

1. Ohio major industries.
2. Ohio regions and communities.
3. Various population groups and labor markets.
4. Natural environment.
5. State and local government.

In addition, the State of Ohio should prepare an economic impact study on how the total state budget impacts the growth and health of the Ohio economy.

Some guidance can be drawn from how the States of Kansas and North Carolina approach development program budgeting. The CSU study team has not yet found a state that is currently approaching the budget process as we are recommending. This could be an opportunity for the State of Ohio to set a positive national example in innovative and effective state government finance.

The State of Ohio should be expected to budget its annual expenditures on economic development. This budgeted figure should include all direct and indirect expenditures, including foregone state tax revenues.

The State of Ohio should work with local governments in Ohio to follow the state's lead in comprehensively accounting for development-related expenditures.

Recommendation 4: Adopt State Incentive Management System (SIMS) Model

At present, the State of Ohio develops and uses its economic development programs in a fragmented way. While many of these programs are valuable tools promoting economic development, they are not planned, managed, and evaluated in a systematic and integrated fashion. This approach currently prevents the State of Ohio from successfully linking these programs to the state's overall economic development goals and objectives.

The CSU study team recommends that the State of Ohio adopt the State Incentive Management System (SIMS) Model to provide greater integration among the four aspects of incentive program management:

1. Planning and design of incentive programs, including the annual budgeting of all program expenditures. All existing state programs should be re-designed to reflect the SIMS model, starting in 1999 and ending in 2000. The Ohio Machinery and Equipment Tax Credit and the Enterprise Zone Program should be state's first priority toward this end. The Enterprise Zone Program's re-authorization should be contingent upon this redesign of the program.
2. Program implementation and management, including the total administration of the state's current programs and the system of procedures and rules guiding the program's future use.
3. Program monitoring and evaluation, including the implementation of the five-part performance measurement system and the new eight-justification system rationalizing state intervention in economic development.
4. Program improvements and adjustments, including the identification and adoption of ongoing improvements to these programs, as identified on a two-year review basis.

The State of Ohio should set priorities for reformatting its economic development programs in line with the SIMS Model. The first priority should be the Enterprise Zone Program, followed by any other programs facing short-term reauthorization consideration.
The Planning Component of the model should involve the following steps:

1. Setting strategic goals and objectives to guide the program.
2. Defining the four components of the SIMS model for the program.
3. Selecting appropriate performance measures to chart progress.
4. Setting maximum and minimum annual budget levels for program.
5. Devise an annual investment strategy, with preferred investment targets, for the program.
6. Creating appropriate information system requirements to support program planning, management, and evaluation.

The Management Component of the model should involve the following steps:

1. Training program staff in future use of the SIMS model.
2. Selecting the most appropriate administrative structure for the program (centralized versus decentralized).
3. Selecting appropriate local and regional financial affiliates for the program.
4. Devising an appropriate portfolio management strategy for the program.
5. Devising appropriate legal agreements and negotiation strategies to use with companies.

6. Devising appropriate marketing and communications strategies to inform companies and others about the program, its requirements, and benefits.

The Monitoring and Evaluation Component should include:

1. Selecting appropriate and practical computer modeling tools to facilitate the evaluation process.
2. Devising specific management performance measures under the 5-layer performance measurement system.
3. Organizing an appropriate evaluation team spanning ODOD, OBM, Taxation, and LBO.
4. Training program staff and local officials in using the new evaluation system.

Ohio officials should work with local government in Ohio in the adoption of this management system for local incentive programs.

Recommendation 5: Create/Implement the Buckeye State Development Fund

The State of Ohio currently operates several economic development programs that provide loans and grants to Ohio businesses. These programs are managed as separate programs and the state currently has difficulty using the programs to achieve its strategic economic development goals. Many of these programs are currently small in scale.

The CSU study team recommends that the State of Ohio form the Buckeye State Development Fund (OBSDF) as an integrated finance entity that provides more flexible public capital to deserving economic development projects. The OBSDF would incorporate the following existing programs:

1. 412 Program
2. 166 Program
3. Ohio Enterprise Bond Fund
4. Roadwork Development Fund
5. Minority Business Development Programs
6. Perhaps others

Under the OBSDF, these programs would be combined into a single overall fund that provides appropriate development financing to companies and communities. Special attention should be given to the needs of small and minority businesses requiring state assistance.

Four financing pools or funds should be set up under OBSDF:

1. Economic Development Infrastructure Pool (EDIP): Provide grants for project infrastructure, including telecommunications and information infrastructure.

2. Entrepreneurial Development Fund (EDF): Provide growth capital for smaller companies.

3. Strategic industry investment fund (SIIF): Provide loan funds to advance Ohio's most important industries and clusters.

4. Business expansion capital fund (BECF): Provide loan funds to support general manufacturing and selected service industry expansion.

The State of Ohio should investigate the advantages of managing this fund on a decentralized basis through Regional Development Funds. Five such region funds should be investigated. Resources from these funds should be expended in a way that is consistent with the goals of the Ohio Productive Growth Initiative and other major state economic development initiatives.

A system to give special points to qualified projects in economically distressed areas should be devised for all four proposed funds or pools.

Recommended investment targets for the four funds/pools are:

1. Manufacturing plants.
2. Industrial distribution facilities.
3. Technology services (e.g., software, data processing, product development, research and testing, others).
4. Corporate headquarters and regional corporate offices.
5. Back-offices and call centers.

Recommendation 6: Create and Implement the Ohio Quality Jobs Initiative

Most states, including Ohio, define work force development as the top current economic development priority. A qualified work force is paramount to economic competitiveness, especially as our economy becomes more information and knowledge-based. Work force development is an economic development issue!

This priority encompasses a myriad of needs, including severe skilled worker shortages, existing job upgrading, better long range job development planning, inadequate work force preparedness by minorities and disadvantaged workers, and the lack of coordination between educational institutions and other work force development entities. If these priorities are not met, Ohio will lose future economic expansion opportunities.

Ohio currently suffers from a serious competitive disadvantage caused by its lagging work force in many areas. Many states, such as North Carolina, South Carolina, Tennessee, and others, have moved forward with aggressive work force development initiatives that offer greater job development assistance to employers than that offered by the State of Ohio.

The CSU study team recommends that the State of Ohio adopt the Ohio Quality Jobs Initiative, as an ongoing strategy to help the state compete more effectively for high-quality job creation in a full range of manufacturing and service-related industries. The initiative would work with Ohio employers, institutions, labor organizations, and individuals to institute three new action strategies, which are described below.

What is a "quality job?" We define a quality job as one that possesses the following five characteristics:

1. Higher wage level than statewide average for the industry.
2. Favorable benefits package.
3. Job adds to employer productivity and competitiveness.
4. Favorable career growth/advancement potential.
5. Healthy and safe working conditions.

We recommend that Ohio adopt a "5-Star Job Quality System." The purpose of the system is to allow state and local officials, employers, and workers to develop greater consensus in the future about job quality. The system would allow all of these groups to chart progress in enriching the work experiences of Ohio workers. The five stars correspond to the five criteria used to define a quality job. Further ideas will be provided on how this idea could help Ohio to increase its number of higher quality job opportunities.

These four action strategies are recommended as part of the Ohio Quality Job Initiative:

1. Create a $100 million pool for work force development and training in Ohio's leading strategic industries, including both goods and service-producing industries. (While the Governor's proposal budget calls for an increase in job training funds, we believe that a substantially larger allocation is needed to address this crucial need.)

2. Expand the amount of tax credit available to employers under the Ohio Job Creation Tax Credit Authority for high quality job creation. (See the definition of quality jobs offered above.)

3. Provide additional funding to expand training at colleges and universities for computer literacy and to stimulate entrepreneurship in electronic commerce by Ohio citizens.

$100 Million Job Training Fund

Ohio currently under-invests in human resource development as an economic development strategy. This is especially true in comparison to at least ½ of Ohio's competitor states. While the Administration is proposing an increase in job training funds to augment the Ohio Industrial Jobs Training Program, we believe that the order of magnitude of the proposed increase is to low. Given the size of Ohio's economic and job

base, we believe that $100 million is a more realistic number in meeting the work force challenge that exists across the state.

This initiative could be funded by:

1. Current $10 million allocated to OIJT Program.
2. Additional $40 million authorized by the Legislature.
3. $30 million authorized from Unemployment Insurance Fund.
4. $10 million set-aside from Ohio Board of Regents for college and university-based training.
5. $10 million set-aside from Ohio Department of Education to support technical training and retraining.

We would suggest a leveraging strategy that encourages at least a 1 to 1 (public to private) ratio and perhaps a 2 to 1 ratio.

The funds should be targeted at manufacturing, distribution, technology services, headquarters and regional offices, back-office and call center jobs in Ohio. The present Ohio Industrial Jobs Training Program serves only manufacturing and distribution companies.

A portion of the fund should be targeted to smaller companies and a portion targeted to development projects in more highly distressed Ohio community locations.

This initiative also calls for additional support for computer literacy and electonic commerce entrepreneurship.

Recommendation 7: Create and Implement the Ohio Productive Growth Initiative

State and local officials in Ohio have grown increasingly concerned about the spatial course that development follows in regions and communities. Ohio's future growth will be based, in large part, upon productivity gains experienced by private industry and government across the State of Ohio. Ohio's economic development strategy should work actively at mitigating costly urban sprawl and the unnecessary consumption of rural farmland. Moreover, the state's economic development strategy should encourage Ohio communities and regions to plan future growth, identify measures to ensure that growth occurs in an orderly and cost-effective manner.

The CSU study team recommends that the State of Ohio create and implement the Ohio Productive Growth Initiative as a strategy to achieve growth and development in a more productive and cost-effective manner.

The Initiative would include:

1. Development and adoption of a plan by all state agencies and departments to encourage more productive growth in Ohio over the next decade. This plan

should identify appropriate incentives and penalties that would encourage Ohio businesses, governments, nonprofit institutions, and private citizens to engage in practices that lead to more productivity-based growth. The business component of the plan should identify how Ohio firms will increase their productivity in using all types of resources, including land.

2. State business and personal tax credits and deductions for investments that contribute to productive growth in Ohio. (To be defined by state agency and department plans.)

3. Investigate the feasibility of a state legislative requirement that all Ohio communities and regions adopt and maintain up-to-date land use and comprehensive development plans. Under no circumstances should the State of Ohio dictate the content or form of these plans. But the state should offer proposed guidelines to assist communities and regions in this regard. (This proposal is recommended for further definition and exploration only at this stage. A dozen or more states have this requirement at present. We believe that more will adopt this requirement in the future.)

4. The State of Ohio should develop and implement a new performance measurement system that tracks annual progress in achieving statewide and regional productive growth goals. This performance measurement system should examine the impact of these plans on the State of Ohio on a biennial basis.

The State of Ohio should work with local governments and the private sector in Ohio to accomplish the goals of the Ohio Productive Growth Initiative. This is clearly an initiative that will require the close cooperation of state and local government in Ohio.

Recommendation 8: Create and Implement Ohio Strategic Industry Initiative

At present, Ohio follows an implicit economic development policy that gives greatest attention to developing the state's manufacturing sector. Few would deny that the manufacturing sector is strategically important to Ohio economic development. At the same time, the Ohio economy must mount a more aggressive and better-defined strategy to diversify its economic base over the next 25 years. Our analysis indicates that Ohio currently gives inadequate attention to the growth of its strategic technology and advanced service sectors.

The CSU study team recommends that the State of Ohio create and implement the Ohio Strategic Industries Initiative (OSII) as a strategy to increase competitiveness of its existing major industry and economic drivers, and as a strategy to work toward the future diversification of the state economy. An in-depth study of best future industry development targets should be undertaken by the State of Ohio.

CSU suggests eight possible industries and clusters that could be explored under this future study:

1. Metalworking and material-working clusters.
2. Advanced manufacturing equipment and machinery industries.
3. Transportation equipment manufacturing sector.
4. Information and knowledge-based industries.
5. Advanced medicine and services.
6. Agriculture, natural resources, and environmental cluster.
7. Development industry cluster (finance, real estate, infrastructure, engineering and architecture).
8. Travel, tourism, entertainment, and leisure cluster.

Three action steps should be taken:

1. Align the Thomas Edison Program with the OSII and the strategic sectors that are selected. Each of the target industries or clusters should have a technology competitiveness strategy.

2. Devise statewide cluster or strategic industry development plans for each of the sectors. This would identify the best development opportunities (industries and firms) to be given special development attention. It should also include a strategy to improve the state business climate for each sector. Innovative strategies should be devised to make these sectors more globally competitive through creative and effective technology, financial, trade, and other strategies. Develop resource plans for each strategic sector identifying how the public sector would support innovation and development of the human capital, real estate, technology, and public infrastructure resources needed by these sectors of clusters.

The State of Ohio should form an OSII Task Force, comprised of economic development, higher education, science and technology, business (large corporations and smaller entrepreneurial companies), and local government officials to give shape to this new initiative and its future programs. Special attention should be given to strategies encouraging entrepreneurial development in these sectors. The Task Force should examine the conclusions of a recent book, *The Experience Economy—Work is Theatre and Every Business is a Stage*, by B. Joseph Pine and James H. Gilmore, which discusses how "experiences" have become increasingly valuable economic outputs. Pine and Gilmore describe how "computer-age" customers are demanding experiences through entertainment, education, consumer and industrial services, professional services, and a variety of other forms. States like California, New York and Florida recognize this fundamental economic shift. Ohio must awaken to this opportunity. Ohio'' future economic development strategy must reflect this new source of growth and development.[1]

SECTION III: MAIN REPORT

CHAPTER 1 - STUDY MISSION AND PROJECT GOALS[2]

Introduction

Tax and financial incentives are currently an important aspect of economic development competition among states. The use of public economic development incentives has increased dramatically in the past decade. A 1997 report by the Council of State Governments (CSG) documents this growth on an annual basis since the mid-1980s.[3] Our survey of states for this study indicates that the use of many types of business incentives continues to grow.

More recently, the CSG released a report on business incentives used by Midwestern states.[4] This second CSG report calls attention to the lack of reliable information on how much money states invest in business incentives:

> Perhaps most important – and most disturbing – is the lack of accurate and reliable information about what states are giving away with incentives, and what they are getting in return for their 'business-friendly' policies. Furthermore, while most lawmakers are aware of the business incentives within their own states, they often know little about what their neighboring states are offering in the name of economic development.

The Ohio Economic Development Study provides the best possible answers to these important questions for Ohio officials.

Almost all states offer business incentives, and businesses routinely request these programs to reduce the costs and risks associated with business expansion and relocation. As the use of these programs grows, pressure is mounting within statehouses nationwide to better understand the fiscal and economic impacts and effects of these programs. What role should business incentives play in how states approach competition for economic development opportunities? Ohio is exercising positive leadership in attempting to confront the realities of economic development incentives through this rigorous policy and program research. This study has been undertaken within this current context.

Project Mission Statement

The Ohio Economic Development Study (OEDS) project's mission is to identify how the State of Ohio can more strategically invest its financial resources in economic development plans, programs, and projects by conducting a systematic and comprehensive analysis of Ohio's economic and fiscal position, and by assessing the economic and financial costs, benefits, and impacts of Ohio's major economic development programs.

Project Goals

Four goals are to be met by this study's results:

1. **Existing Program Evaluation**: Analyze and review the State of Ohio's 12 major economic development programs (business assistance programs), and assess the performance of these programs in meeting their current goals.

   The results of these analyses should provide adequate guidance to the State of Ohio on whether the performance of these programs is sufficient, and if not what actions should be taken to address identified problems.

2. **Economic Competitiveness**: Compare the economic health of the State of Ohio and the effectiveness of Ohio's economic development programs with the economic performance and program effectiveness of states that directly and routinely compete with Ohio.

   This assessment of economic competitiveness serves as a backdrop for identifying appropriate policy recommendations regarding the State of Ohio's economic development programs.

3. **Future Economic Policy and Program Options**: Identify the best means to ensure the growth and stability of the state's economy, including an analysis of the state tax structure as applied to businesses operating within Ohio. Recommend a future state economic development model that enhances the future economic performance of the Ohio economy, and also solves the major problems associated with the state's current approach to economic development.

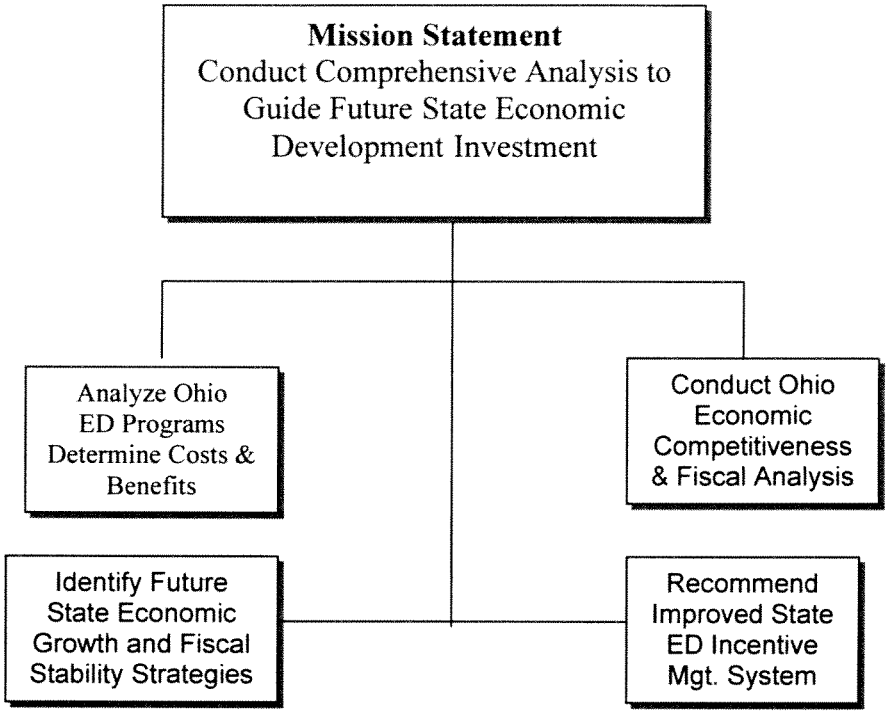
   State economic competitiveness is a function of many ongoing and situational factors, including government spending policies, private market trends, and larger economic, social, and technological developments that determine the state economy's ability to provide sufficient employment, income, and other resources to sustain Ohio's population at an 'acceptable' quality of life and standard of living.

4. **Ongoing Monitoring and Evaluation System**: Develop procedures to be used by the Ohio Department of Development and appropriate other state agencies for the evaluation of existing and future economic development programs. Prepare recommended guidelines for the administration and monitoring of each of the evaluated state economic development programs. Prepare recommended actions needed to strengthen the state's competitive position relative to other competitor states.

   These procedures should be organized within an improved overall management system that assures that new program monitoring and evaluation processes are used to support ongoing administrative decision-making about economic development projects and plans.

Figure 1 below identifies the project's mission and goals. The goals correspond to the project's four major work plan components. Together these four goals identify how the overall project mission statement is achieved.

Figure 1: Mission and Goals



Major Study Issues

What would motivate the State of Ohio to spend $500,000.00 on a consulting team and take 18 months of its time and energy to study how well its major economic development programs are working?

First, economic development is a vitally important public policy concern to the State of Ohio, the state's many local government units, the private sector, and Ohio citizens. State officials should know which programs are currently working well, and which are not working and either need to be fixed, replaced, or discontinued. Ohio officials should also have their eyes open to new incentives needed to develop Ohio's economy in the years ahead. This study provides an opportunity for the state to make necessary policy and strategy adjustments to improve its future competitive abilities.

Economic development is important in both good and bad economic times. Too often, politicians and community leaders work on economic development issues when economic times turn sour. In many ways, it is easier to take a rational look at the state's economic development programs during favorable economic times because there is less pressure to deal with the effects of severe economic problems, and the stress these problems create for government, business, and citizens.

The U.S. economy has enjoyed a major economic boom over the past seven years. Economic forecasters from the government and the business sector are predicting a slowdown in 1999 and beyond.[5] Economic forecasts prepared for this study project indicate that Ohio is in store for somewhat slower growth over the next couple years.[6] Regional Financial Associates (RFA) foresees real Gross Domestic Product (GDP) growing at a 1.8% rate in 1999 and 2.4% in 2000. These expected future rates fall considerably below the 3.4% and 3.9% rates seen in 1997 and 1998 respectively. Ohio's economy is expected to get less help from the national economic growth rate over the next two years. RFA is forecasting Ohio gross state product (GSP) will increase by only 1.5% in 1999 and 1.96% in 2000.

Second, more people in Ohio and across the country are asking serious questions about how much business incentive programs really cost government and the general public, and what tangible benefits they provide in return.[7] Fortunately, this study is not driven by a monumental financial crisis affecting the State of Ohio at present. This does not suggest that Ohio does not have serious financial challenges it must face. For one, Ohio must find a better way in the future to fund public education. The courts have already decided that this problem must addressed. In our look at Ohio's competitive situation, we see an even far more serious problem, pointing to the fact that Ohio's educational system is seriously out of step with the current and future economy and labor market. Educators claim the problem is the need for money. The far more serious problem, in our judgement, is the poor connection between the state's education plan and Ohio's economic development strategy. We offer some constructive ideas on how to improve these connections.

Because of a healthy national economy and competent management of state government, State of Ohio Government is in pretty good financial health at the present time. What happens to state finances when the economy slows down in the next couple years? Answers to the cost and benefit questions raised by this study will help state officials to anticipate the future fiscal effects of these programs on the state treasury and local government budgets. This type of planning is essential to reduce future government costs, and lessen the tax burden on Ohio citizens. Incentive advocates fear that a study of this nature may prompt a reduction in these programs, and as a result Ohio will become less competitive for future business investment. The study team believes just the opposite will occur. This analysis will make Ohio MORE competitive for economic development by confronting those serious barriers that lie at the heart of the state's lagging economic competitiveness.

A maze of research questions and public policy issues flows from the two primary motivations described above. This study offers valuable guidance to the State of Ohio on many of these questions. The OEDS Advisory Committee has played a very important role in this study. Because of the Committee members' diverse backgrounds and interests, the study team has had to examine state economic development policy issues from various public and private stakeholder perspectives.

These stakeholders include state government, local government, private business, public and private economic development organizations, major social institutions like the schools, organized labor, and quite importantly private citizens residing in Ohio and paying taxes. As the client for this study, the State of Ohio is the primary stakeholder served by this research.

The study team has endeavored to respond to the complex policy questions raised by Advisory Committee members throughout the study process. These include the following questions:

1. **Net Fiscal and Economic Impact:** What are the net benefits and costs of Ohio's economic development incentives to the State Treasury and local government budgets? Do these programs produce a net positive or negative overall impact? What impact do these programs have on corporate profitability?

2. **Economic Development Goals:** What goals are served by Ohio's economic development incentives presently, and what goals should guide the use of these programs in the future?

3. **Interactive, Cumulative, and Long Term Impact:** What are the interactive, cumulative, and long-term impacts of Ohio's incentive programs at the state and local levels? Are these impacts consistent with the goals guiding these programs?

4. **Business Location and Investment Impacts:** What impacts do Ohio incentive programs have on business location and investment behavior across the State of Ohio? Do these programs encourage firms to locate more often in urban, suburban, exurban, or rural areas?

5. **Industry Effects:** Do certain industries benefit more than others from Ohio's economic development programs? Which industries benefit most? Which benefit least? Which should receive the most benefit in the future?

6. **Geographic Area Effects:** Do certain geographic areas benefit more than others do from Ohio's economic development programs? Which geographic areas benefit most?

7. **Incentive versus Tax Policy Changes:** In the future, is the State of Ohio better off using project-related incentives or making significant changes in its business tax

climate to strengthen its economic competitiveness? What mix of the two would be most beneficial to Ohio's future competitiveness?

8. **Regional Pattern of Development Effects:** How does the use of Ohio's economic development incentives contribute to the spatial pattern of development occurring in Ohio counties and regions? Does the use of these programs contribute to urban sprawl or the loss of agricultural farmland?

9. **School Finance Impacts:** How does the use of incentives affect Ohio public school finances? Can we measure this impact at the present time?

10. **Future Performance-based Incentive Management Model Leadership:** Should Ohio attempt to become a national role model for the performance-based management of state business incentives? What is required to provide this leadership, and what benefits will it provide to Ohio?

11. **Future State Development Role:** What is the most appropriate role of state government in leading and supporting economic development in Ohio regions and communities? What role should the State of Ohio play in financing growth and development?

12. **Contributions to Long Term Competitiveness:** Do incentives contribute to long-term state economic competitiveness? Does the use of incentives reduce business and area economic competitiveness in any way?

These are the major research questions that this study has attempted to address. Many of these questions will require further research, and others are simply not researchable because of major data and research methods limitations. We have done the best we can to provide guidance to state officials on these issues, given our knowledge, available time, data, budget, and other constraints. The study team has organized these driving study issues into an overall analytic framework, which is shown in Figure 2 below. The framework is designed to illustrate how various research questions are related in the context of the study.

This approach introduces a new strategic orientation to not only the state's role in financing economic development projects, but to all aspects of state economic development. This includes strategic planning, statewide and regional marketing, economic diversification, business development, infrastructure investment, work force development, travel and tourism development, industry technological innovation, regional development, and other aspects. This broader perspective is essential to understand how financing strategies support the state's overall economic development goals

Figure 2: State of Ohio Economic Development Impact Assessment Framework

STATE OF OHIO SPENDING ON ECONOMIC DEVELOPMENT PROGRAMS

FISCAL AND ECONOMIC IMPACTS/DESIRED DEVELOPMENT OUTCOMES

Impact Variable	Short Term (0-2 Years)	Intermediate Term (3-5 Years)	Long Term (6-15 Years)
I. Industry Sectors - Manufacturing - Services - Agriculture/Natural Resource - Travel & Tourism -Government/Nonprofit	-Existing business expansions -New business attractions -Short term profits and tax revenues - Cost-reductions	- Sales growth - New market access - Production innovations - Productivity growth - Intermediate profits and revenue stability	- Market share gains - Long term productivity gain - Long haul competitiveness -Long term ROI
II. Geographic Areas - Central Cities & Urban Counties - Suburban Communities - Metropolitan Areas - Exurban Communities - Rural Counties & Regions - Mid-Sized Communities - Small Cities & Towns	- Deal successes - ED project development - Job gains/losses - Invested dollars - Short term public outlays - Annual budget effects	- Major infrastructure investments - New industrial/office parks & retail centers - Initial tax flowbacks - New clean land from brownfield cleanup - Intermediate fiscal impacts	- Longer term fiscal effects - New industry concentrations - More efficient development - More balanced growth - + tax flowbacks
III. Population/Labor Markets - Working Poor - Non-Working Poor - Minorities - Middle Income/Working - Upper Middle Income - Wealthy - Urban and rural labor markets	- More jobs for unemployed and underemployed - Job quality upgrading - Worker training - New worker attraction	- Continued job quality upgrading - New skill supply increases - Modest reduction in unemployment rate - Modest reduction in poverty rate - Modest per capita personal income gains	-New occupation development - Significant labor market adjust - Significant per capita income gains - Significant poverty rate reduction
IV. Natural Environment - Land Resources - Water Resources - Air Resources - Open Space	- Clean industry investments - More land recycling - Lower environ. Impact projects	- Larger scale land recycling/conservation - Modest reductions in emissions (all media) - High density development projects	- Long term environmental improvement - More ecological design
V. Public Sector - State Government - Local Government - Schools/Education - Federal Government	- Strategic project investments - Resource quality improvements	- New public-private partnerships for ED - More regional cooperation - More + fiscal returns	- Govt sector productivity - Long term positive fiscal returns

Figure 2 provides a strategic framework for examining the short, intermediate, and long term impacts and effects of the State of Ohio's economic development incentive programs. The framework helps to organize the various policy questions asked by the Advisory Committee and others involved in the study process. Desired outcomes are identified for five categories of impact variables:

1. **Industry Sectors:** State of Ohio officials should design future state economic development incentives and business tax policies with both the existing and future economies in mind. From a design standpoint, it is most important to accurately depict what industries, businesses, and jobs lie ahead. Currently, Ohio spends the vast majority of its incentive dollars on manufacturing sector projects. This is a trend observed in most states with a strong manufacturing presence. Should this spending pattern continue in the future?

   All signs point to an increasingly service and technology based Ohio economy in the future. Manufacturing is expected to remain of vital importance to the state economy, but clearly services, electronic commerce, and self-employment are expected to be much larger sources of employment and income for Ohio citizens in the future. What role will agriculture, food production, and natural resources play in Ohio's future economy? How should state officials respond to this challenge? Are new business incentives and tax policies needed in the future?

2. **Geographic Areas**: State officials should design future state economic development incentives and business tax policies with the needs of Ohio's different geographic areas in mind. At one time, the simple distinction between urban and rural areas was sufficient to guide state economic development policy decision-making. This is no longer the case. Like the nation, Ohio's population is now pre-dominantly suburban, not urban or rural. While many people remain concerned about 'urban sprawl' and 'farmland preservation' as issues in their own right, it is entirely possible that these concerns reflect a new orientation to settlement patterns emerging in Ohio. Technology, more so than state business incentives, is shaping how we use arrange ourselves spatially in the world.

   What incentives should state officials offer in the future to: 1) improve economic conditions in economically distressed areas; 2) promote appropriate and responsible economic development in growing areas; and 3) attain a better balance in development occurring in Ohio economic regions, which typically include both growing and declining areas?

3. **Population and Labor Markets:** Current and future population and labor market trends should be examined carefully as economic development incentive and tax policies are evaluated and decisions about future direction are made. Several important policy questions emerge. What impact does Ohio's current business incentives have on Ohio's diverse and changing population? What is expected to happen in Ohio's major regional labor markets across the state? How do the state's business incentives impact these labor markets? Where will Ohioans live and work in

the next decade? Are major changes expected in the future? How can Ohio assist its less fortunate citizens to productively raise their standard of living in the future? How can Ohio retain its young and retirement age populations in the future?

Should the State of Ohio provide incentives directly to its citizens to increase their own readiness for future employment opportunities? How do these incentives relate to future state educational strategies that aim to increase state labor market competitiveness?

4. **Natural Environment:** As Ohio officials prepare their economic development incentives and tax policies for the future, greater attention should be given to environmental impacts, and how Ohio can develop its share of environmental goods and service sector businesses and jobs. Ohio has improved its natural environment. The state's natural resources are a major source of recreation, leisure, and scenic beauty to Ohio residents and visitors. What future incentives are needed to build upon the state's natural assets in the future?

5. **Public Sector:** The initial impetus for this study was to understand how Ohio's business incentives impact the state's treasury and local government budgets. In an even broader sense it is important to understand how Ohio's public sector economy is impacted by state business incentives and tax policies? Demands for state and local government service continue to grow in Ohio. Education, health care, and physical infrastructure top this list, but other services are in growing demand as well.

The framework presented above encourages the State of Ohio to create more new expectations that span different time periods (short, intermediate, and long) and that relate to different stakeholder groups impacted by state incentive spending. We refer to this framework throughout this report.

Study Uses

How should the OEDS project results be used by the State of Ohio? This study has been undertaken with four future uses in mind. Others may be identified as communication of study results begins. The four planned uses are to:

1. **Baseline for Future**: Provide a comprehensive baseline analysis on the performance of Ohio's major economic development programs. This baseline should serve as a reference point for future monitoring and evaluation activities.

2. **Program Improvements:** Identify changes in current programs that would strengthen their performance in achieving current and future goals.

3. **Integrated Management Approach:** Design a new integrated incentive evaluation and management system that ensures that Ohio's programs are managed in a more publicly accountable, and performance-based way in the future.

4. **Future Ohio Economic Development Priorities and Strategies:** Identify new tax, financial, and other public and private sector strategies to improve Ohio's long term economic development competitiveness.

CHAPTER 2 - GENERAL METHODOLOGY

Introduction

A systematic approach was followed by the study team and the Advisory Committee in undertaking this study. The Advisory Committee-study team approach was followed in this project. This organizational approach offered three major advantages:

1. Provides diverse advisory inputs into the research process, reflecting the various economic interests of the State of Ohio.

2. Provides an inter-disciplinary research team perspective with the ability to answer complex public policy questions with major economic, social, and political implications.

3. Allows for the interaction of state government policy makers, state and local economic development officials, local government officials, academic economic researchers, business leaders, and Ohio citizens during the study process.

OEDS Advisory Committee

A seven-member Advisory Committee was organized by the State of Ohio to oversee and give ongoing direction to the project. The Committee will use the results of the study to advise the State of Ohio on future actions to be taken related to its economic development programs. This Committee consisted of four state legislators and three representatives from the economic development and economics communities:

- Senator Charles Horn, Ohio General Assembly (Committee Chairman)
- Senator Ben Espy, Ohio General Assembly
- Representative E. J. Thomas, Ohio General Assembly
- Representative Ed Jerse, Ohio General Assembly
- Dr. Lucille Ford, Professor of Economics and Provost, Emeritus, Ashland University
- Joseph Robertson, Assistant Director, Ohio Department of Development
- Charles Gerhardt, Director of Business Development, Cinergy Corporation

The Advisory Committee met on a bi-monthly basis during the first 12 months of the study process and then monthly during the last 8 months of the project.

Technical Review Task Force

A Technical Review Task Force was formed to provide more detailed technical inputs related to project research activities. In large part, the Technical Task Force worked on behalf of the Advisory Committee in clarifying issues and concerns. The Task Force met on approximately a monthly basis, starting in the Spring, 1998. The members included:

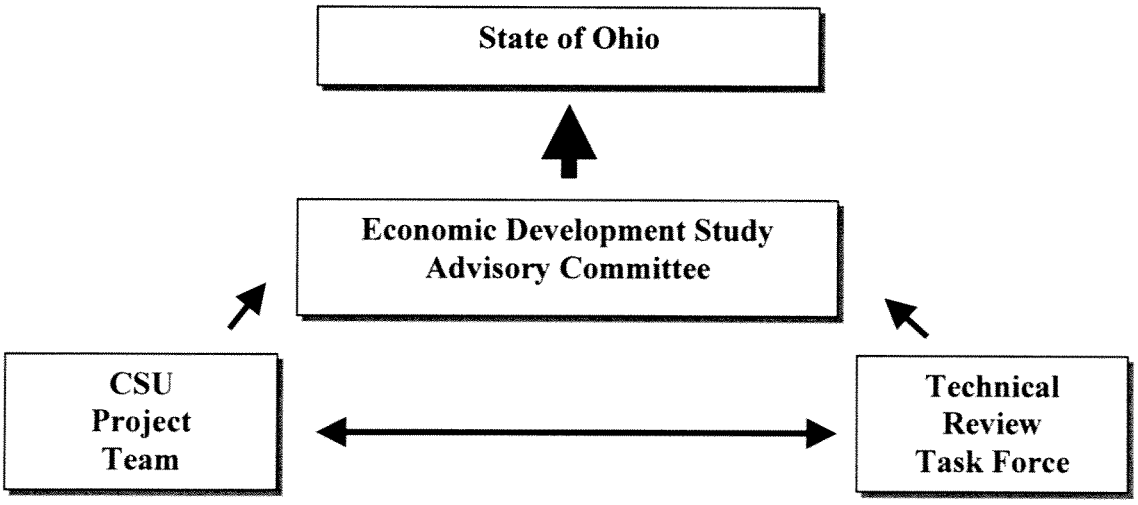
- Larry Weaver, Ohio Office of Budget and Management
- Heather Walker, Ohio Office of Budget and Management
- Fred Church, Ohio Legislative Budget Office
- Katherine Schill, Ohio Legislative Budget Office
- Steven Kelley, Ohio Department of Development
- Robert Stempfer, Ohio Department of Development
- Mathew Dietrich, Ohio Department of Development
- Ray DiRossi, House Republican Caucus, Ohio General Assembly
- Rusty Orban, Aide to Senator Horn, Ohio General Assembly
- Eileen Granata, Toledo Regional Growth Partnership

Cleveland State University Study Team

A 25-member research and policy team was assembled by Cleveland State University's Urban Center to complete the research associated with the study. The project study team was responsible for managing and conducting the research process to responding to the project scope established by the State of Ohio. The study team reported directly to the OEDS Advisory Committee, but frequent discussions occurred between the Ohio Office of Budget and Management, which funded the study, and the CSU study team. A complete list of project study team members is found in an Appendix to this report.

Donald T. Iannone, Director of the Economic Development Program in CSU's Urban Center directed the study team's activities. He was assisted by Kevin O'Brien, the Assistant Project Director, who is Director of the State and Intergovernmental Initiatives Program in CSU's Urban Center. The study team combined the nationally recognized expertise of the staff and faculty of CSU's Levin College of Urban Affairs with the skills of several national consultants and researchers, and selected highly recognized researchers from other Ohio universities. The CSU Urban Center has served as the project manager.

Figure 3: OEDS Project Organization



Research Approach

The CSU study project methodology consisted of seven major components:

1. Incentive Literature Review.
2. State Competitiveness Analysis.
3. State Fiscal Assessment.
4. Program Assessments (12).
5. State Policy Choice Framework.
6. Policy Recommendations.
7. Implementation Assistance.

Incentive and Economic Development Policy Literature Review

An analysis of the research literature on business incentives and economic development policy was undertaken by Dr. Terry Buss (Suffolk University). Our purpose was to:

1. Identify the major research findings on the effectiveness and impact of the major tax and financial incentives evaluated in this study. The literature review report is organized into sections that correspond to the different incentives evaluated.

2. Learn from past evaluation studies and incorporate this learning into the design of the Ohio study.

3. Determine how other states have monitored and evaluated their economic development programs and learn from these experiences.

Economic Competitiveness and Growth Analysis

Two parts comprised this aspect of our study methodology:

1. **Business Climate Analysis**: An analysis of Ohio's business climate compared to its five border states and six other states that compete with Ohio on a regular basis for economic development opportunities. This part of the analysis was prepared by Growth Strategies Organization (Vail, Colorado).

    - Indiana
    - Kentucky
    - Michigan
    - Pennsylvania
    - West Virginia
    - California
    - North Carolina
    - South Carolina
    - Tennessee
    - Texas
    - Virginia

2. **Economic Growth Forecast**: An economic forecast and industry growth analysis was conducted, comparing Ohio to its five border states and the other six comparison states. This was prepared by Regional Financial Associates, Inc. and Donald Iannone at Cleveland State University.

    - Ohio and comparison states' economic growth
    - Ohio county economic growth performance
    - Ohio's largest industries
    - Ohio's fastest growing industries
    - Ohio's declining industries

Ohio Public Financial Position Analysis

The public financial analysis was conducted by Ned Hill and Kevin O'Brien of CSU. Two components comprised the analysis of State of Ohio public financial trends:

1. **Ohio Budget Trends:** Revenue and expenditure trends were examined over the past decade to identify major changes in Ohio's budget and its impact on Ohio economic growth. This was prepared by Kevin O'Brien, and the State and Intergovernmental Initiatives Program staff at Cleveland State University.

2. **Tax Issues Affecting State Development Capacity:** A series of critical financial issues were examined to determine Ohio's current and future fiscal capacity to support future economic growth. Close attention was given to major tax revenue source trends and their implications for public school funding, infrastructure development, and other strategic investments. This was prepared by Kevin O'Brien and Dr. Ned Hill at Cleveland State University.

Ohio Economic Development Incentive Program Assessments

This is by far the largest aspect of the project work plan. The vast majority of project resources were devoted to this area. Twelve of the state's major economic development programs were examined in this study. Eight were examined in greater detail than the other four. The decision about the level of analysis assigned to programs was made by the State of Ohio and the OEDS Advisory Committee.

Detailed Program Analyses (No. of Programs in Parenthesis):

- Community Reinvestment Area(1)
- Enterprise Zones (1)
- Job Creation Tax Credit Authority (1)
- Machinery & Equip. Tax Credits (1)
- ODOD Grant Programs (2)
- ODOD Industrial Job Training (1)
- ODOD Loan Program (1)

Cursory Level Program Analyses:

- Joint Economic Development Districts (1)
- Minority Business Loan Program (1)
- Tax Increment Financing Agreements (1)
- Thomas Edison Program (1)

Hypothetical Firm Simulation Modeling (TAIM Analysis)
Different assessment methodologies were used to examine the twelve programs. The Tax and Incentive Model (TAIM) developed by Professors Peter Fisher and Alan Peters from the University of Iowa, was used to analyze several of the programs. TAIM is a hypothetical firm simulation model that allows researchers to examine the impact of different levels of incentives and taxation on the internal rate of return for a firm making a business investment in a geographic location. A more completion description of the model is provided in the Appendices.

The following eight programs (number of programs in parenthesis) were analyzed using TAIM:

- Enterprise Zones (1)
- Job Creation Tax Credits (1)
- Machinery & Equip. Tax Credit (1)
- ODOD Grant Programs (3)
- ODOD Industrial Job Training (1)
- ODOD Loan Program (1)

Property Assessed Valuation Growth Correlation
Given the local nature of the Enterprise Zone Program, an analysis was undertaken to investigate the interaction between Enterprise Zone availability and community property assessed valuation growth.

An Ohio Department of Taxation database, converted into a research database by the Urban Center's State and Intergovernmental Initiatives Program, was used to determine whether zone presence and operation had a positive or negative correlation with changes in property assessed valuation. A series of regression analyses were conducted to identify possible statistical relationships.

Input-Output Modeling Analysis
Regional Economic Modeling, Inc.'s (REMI) Input-Output Model for the State of Ohio was used to assess the economic impact of the Machinery & Equipment Tax Credit Program and the Job Creation Tax Credit Program on Ohio gross state product, employment, and personal income levels. The analysis was limited to the state level given the requirements of the project and model availability. CSU Economic Development Program staff and JEK Analytics (Cleveland, OH) collaborated on these analyses.

Survey Research Methods
Survey research helped to identify trends, issues, and concerns relevant to the performance of several of the state's programs. The following surveys were conducted:

- Mail survey of 600 Ohio firms to determine their views and usage of Ohio incentive programs.
- A mail survey of all 275 local enterprise zone managers to identify strengths and weaknesses of the program at the local level.
- Phone surveys with managers and users of Ohio's Community Reinvestment Areas Program, and several other Ohio incentive programs.

Performance-Based Incentives Best Practice Benchmarking
Researchers from the National Council for Urban Economic Development (CUED) conducted interviews and examined program materials on state incentive programs in the eleven comparison states to identify the extent to which performance measures are being used to monitor and evaluate program effectiveness and impact.

Case Study Analysis
Case studies were prepared on six local enterprise zones to examine in depth operating issues related to the program. These case studies were prepared by CSU staff researchers.

Program Profile Analysis
Internal administrative data maintained by the ODOD on the twelve programs was analyzed to determine patterns and trends in terms of industry and geographic area utilization of the programs. These profiles were prepared by CSU staff researchers.

State Policy Choice Framework
The study team has developed an analytic framework (See Figure 2 above) to help the OEDS Advisory Committee and the State of Ohio to make appropriate policy decisions about Ohio's economic development programs. This framework is designed to array policy options from the standpoint of:

- Environmental Impacts
- Geographic Area Impacts
- Impact Timeframe
- Industry Impacts
- Population/Labor Market Impacts
- Public Sector Impacts (including tax and fiscal effects)

The results from other study component analyses are examined in terms of these six impact frames. Appropriate options are arrayed and a recommended set of policy recommendations is selected.

CSU Study Team Policy Recommendations

The CSU study team identifies several policy options for the Advisory Committee's consideration, and the team provides recommended policy actions for consideration by the Advisory Committee and the State of Ohio. Hopefully these will form the basis for the Committee's final recommendations to the State of Ohio.

This study has attempted to learn from and build upon earlier economic development research. We present the highlights of our analysis of the economic development incentive research literature here since it is part of the basis for many of the ideas and assumptions made in this study. A thorough analysis of the economic development policy, public finance, business location, and public administration literature was conducted as a foundation for the study team's research on Ohio programs.[8] This analysis helped to pinpoint technical problems that needed to be overcome or at least recognized in structuring the Ohio study.

Data and Methodological Problems

Several difficult methodological issues were apparent to the study team from the literature review. As an overall observation, the study team saw wide differences within the published research literature about the role of incentives in economic development. Many earlier research studies on incentives used limited data, and in some cases experimental research methodologies, to analyze the impact and significance of incentives on businesses, governmental units, and other issues.

The broad scope of this study has allowed the study team to look across the State of Ohio's various programs. This view is helpful in understanding these programs' inter-relationships. We hope that our findings will be more useful to state policy-makers and administrators in light of its more comprehensive approach.

Noting the data problems encountered in the Ohio study, we can fully understand the data problems experienced by other researchers. These problems reflect insufficient attention to ongoing program evaluation. Monitoring efforts and systematic reporting of monitoring results have increased in recent years, yet truly useful evaluation research has been virtually absent in Ohio and other states. We will return to this point later.

The study team observed that economic development incentive studies conducted in the last 8-10 years are more empirical in nature, and they provide better guidance on the impact of incentives on firm profitability and the contribution of these programs to economic development goals. This suggests that things are moving in the right direction.

CHAPTER 3 – PRIMER ON ECONOMIC DEVELOPMENT AND INCENTIVES

Purpose

This primer on economic development and business incentives is offered to improve understanding of underlying issues integral to our analyses of the State of Ohio's programs. This chapter builds upon our review of the existing research literature and our own unique research on Ohio's economic development policies, programs, and strategies.

We have discovered through our research that it is nearly impossible to separate business incentives from the larger context of economic development. To do so, one distorts how these tools are actually used and what impact they have. This primer creates an understanding of where business incentive programs fit within the overall scheme of economic development issues, policies, and strategies. This primer is helpful to both proponents and opponents of economic development incentives.

What Is Economic Development?

It is necessary to start by defining economic development. We have created a new definition that we believe helps state officials think about both business incentive issues and the larger purpose served by different economic development policies, strategies, and programs.

This definition encourages state policy decision-makers to think ahead and imagine what type of future they seek to create in Ohio with their economic development policies and strategies. It is not enough to simply fix current problems with Ohio's tax and finance programs. Fundamentally, this project is about shaping Ohio's future environment for economic development. The State of Ohio should provide appropriate and adequate incentive for the public and private sectors to co-create and operate within this new environment.

First, it is essential to distinguish 'economic growth' from 'economic development.' Economic growth refers to the quantitative changes in the size and growth rate of economies defined at the local, state, national, and international levels. Economic growth refers to the amount that Gross Domestic Product (GDP) or Gross State Product (GSP) increases over a time period. Economic growth is more concerned about how much different markets grow, how prices affect market growth, how government monetary and fiscal policies impact the size and velocity of the economy, and related issues.

Economic development, on the other hand, refers to the capacity of state and local economies to provide jobs, income, and other economic resources required to achieve or to maintain a healthy standard of living and quality of life for an area's population. Economic development, by nature, serves a 'social purpose' in society. This social purpose has to do with how our society and its people progress and advance in the face of rapid economic change. Economic development is not just about making private

businesses more competitive or profitable. This limited view is why economic development incentives have failed to produce their expected outcomes. Economic development recognizes the power and importance of business as a basic societal institution to create wealth for private citizens, but it also recognizes that the whole of society must make progress if we are to achieve our basic aspirations as a free, just, and democratic nation.

Economic growth and economic development are closely inter-related, but they are often greatly confused. Clarity is needed in deciding upon the intended policy role of government incentives for business and economic growth. Economic growth and economic development require different types of stimuli and different incentives. These are discussed below.

Ohio economic growth is a function of five major factors: 1) national and global economic performance; 2) national and regional long-term demographic trends; 3) government economic and fiscal policies; 4) the state economy's industry mix; and 5) major technological innovations influencing productivity and efficiency. Economic development, on the other hand, is determined, in large part, by state and local conditions, policies, and factors supporting the capacity of specific local areas and industries to grow and develop.

Because of economic development's deep roots in the fields of geography and political economy, the spatial distribution (and re-distribution) of economic activity is often the primary concern to state and local decision-makers. Economic development organizations are obsessed with the issue of where businesses and jobs locate. Business mobility has been the over-riding concern of economic developers in the several decades. This is why incentives are used to influence the location of business facilities. Ohio officials need to consider the possibility that these mobility and place location concerns may take a back seat to other issues in the future, especially in light of the growth of new information and knowledge industries that treat "place" differently than industries producing material goods.

A very important point identified by our research team forecasts is that the obsession with 'place advocacy' that dominates the field of economic development will change. The State of Ohio must be prepared for this change. Technology will continue to move society toward new institutional forms of life.

A new spectrum of choices will exist in the future in terms of where and how people live and work. Some people will make choices to focus their lives in a limited number of places, while others will choose to spread their lives across many places. Most importantly, our public policies should preserve the right for people to make socially-appropriate choices. This is not a denouncement of the importance of 'place' in a physical, material, psychological, and/or cultural sense. The attachment to place is profound in human history and experience. We are simply saying that the value, experience, and meaning of place will change in the future. These changes will have profound consequences for political and government organization.

Because of new place-transcending and connecting technologies, our children, grandchildren, and great-grandchildren will more readily experience a greater number of geographic places during their lifetimes. The automobile produced a similar impact on society early in the 20th Century. New computer, telecommunications, and related technologies will do the same as we enter the 21st Century.

Our future definition of economic development must reflect these new realities that are shaping our lives. If we ignore them, then surely we will be ill-prepared to confront the challenges and opportunities that lie ahead. It is completely appropriate to question blind allegiance to new technology, without understanding how technology will change our values and sense of humanity. At the same time, it is a dire mistake to stick our heads in the sand and pretend that these technologies will not in part change who we are, and how and where we work in the future.

Economic Development Definition

Economic development is the process by which society's major public and private institutions use the marketplace and government policy to create new per capita financial wealth for citizens at all socioeconomic levels through new economic investment. Wealth creation occurs most efficiently and equitably when private individuals and enterprises are actively encouraged and enabled to seek new economic opportunities and productively use their resources to create new economic value in society benefiting themselves and others.[9]

Private enterprise contributes to the economic development process by increasing its marketplace competitiveness through the strategic and productive deployment of financial capital, human resources, technology, real estate, information, and other economic resources. The appropriate and responsible deployment of these resources will generate valuable employment and income opportunities for citizens and new governmental financial revenues for essential public sector services.

Governmental units contribute to the economic development process by ensuring fair market competition, improving access by firms and individuals to strategic resources required for new economic growth, protecting the economic interests of citizens and businesses against harmful threats, and by government conducting itself in a productive and responsible manner. Through these actions, government ensures that economic development in society occurs in a balanced, beneficial, and fair manner.

Economic development should occur in large part because private enterprises and individuals seek to respond to new and changing national and global market demands, and in so doing they increase their financial prosperity. Governmental policies create an open and fair environment in which firms and individuals create and serve markets.

Definition of Economic Development Incentive

What exactly is an 'incentive?' We define an incentive as any direct or indirect financial or tax payment or benefit that is made by a government agency to a business, or to an economic development intermediary, (local government, private nonprofit organization) for the purpose of stimulating business investment, job creation or retention, expanding resident income, and expanding the state and/or local tax base.

The Deep Roots of State Incentives

Incentives are not new to economic development. They have played a role in how state and local governments have supported economic development over the past 200 years or more. Colonial towns offered bounties to attract entrepreneurs and skilled craftsmen. States have provided infrastructure assistance to encourage business investment since the early 1800s. In 1936, Mississippi first used tax-free bonds to encourage industrial development. States have innovated with several generations of financial strategies and tools since these early actions. We expect that states will continue in the future to develop new ideas on how to finance economic development projects.

The use of state and local economic development incentives has clearly grown over time. The exact extent of this growth is not known, but according to the Council of State Governments (CSG), the use of business incentives by state government has grown steadily since the late 1970s, when it first began systematically tracking the use of these tools.[10] The CSG report observes the greatest growth in tax-related incentives across the states, and notes that financial incentives (grants and loans) have grown more slowly in number and variety. These observations have been borne out by our surveys and analysis.

Our study team sees a similar future orientation to tax-based economic development competition. Noting the differences in state tax bases, there will continue to be some variation in the types of incentives (abatements, credits) that are adopted in the future. We are likely to see some future innovations in response to three critical financial issues: electric power de-regulation; new school funding demands; and future inter-governmental competition for existing tax revenue sources.

Public Sector Role in Economic Development Finance

All levels of government (federal, state, local) have played an active role in helping to finance economic development projects for many years. General public investments in infrastructure, public services, and other public amenities are seen as beneficial to an area's overall quality of life, as well as its economic development climate. These investments are less likely to be seen as targeted business incentives because they are much easier to rationalize because of their broad geographic area and population benefits. In the project finance arena, the public sector is seen as providing supplemental, or 'gap' financing that improves the likelihood that a private investment in economic development will occur. These public investments are justified to overcome or offset an identified or

perceived market failure, because of a public sector-caused competitive disadvantage, or the prospect of significant public benefits produced by an economic development project.

Special tax treatments, such as tax abatements and tax credits, are very common incentives used by government. As indicated earlier, these types of incentives are growing in use across U.S. states. As we examine a state's overall spending for economic development, we find a number of tax expenditures that also may be considered to be incentives. Our special report on Ohio's tax expenditure budget helps to define the extent of these expenditures.

Can Economic Development Programs Really Be Evaluated?

This is a vitally important question as we look at what type of answers this study can provide to the State of Ohio. The simple answer is that most state and local economic development programs *cannot be evaluated* in a highly accurate sense because of the shortcomings of existing monitoring data and research procedures. However, incentive programs *can be assessed* in a systematic analytic fashion, but true policy and program evaluation research is not possible now. This study produces many useful insights and offers valuable guidance that state government can directly use in making improvements to its economic development finance programs. This study will also greatly help to prepare Ohio to conduct better evaluation research on its programs in the future.

Several earlier researchers offered guidance on the issue of whether meaningful evaluations of economic development programs can be undertaken. This was a question our researchers struggled with at the beginning of this study. We knew going into the study that certain issues, like proving the 'but for' clause, would not be possible in this study or any study for that matter. Moreover, it is the belief of the study team that the 'but for' clause provides a very limited justification of why the public sector should invest in economic development projects. Once into the study, we discovered quickly that the limited availability of long term monitoring data would constrain our ability to provide in-depth evaluation of many of the State of Ohio's programs.

The Ohio Department of Development has endeavored to collect information required by Ohio law to assess the ongoing performance of its incentive programs. We believe the Department has generally met the Ohio Legislature's past expectations for monitoring information. It is the study team's technical opinion, however, that this information falls far short of what is required for serious policy and program evaluation research. We urge the state to follow the recommended procedures identified in this report as a way to remedy these shortcomings.

In an earlier book, Tim Bartik (The Upjohn Institute) and Richard Bingham (Cleveland State University) concluded that future economic development program evaluation studies might be improved if three things are done:[11]

- Provide federal funding and national standards for these studies to motivate more evaluation research in the future. (We would add that more state government funds should be made available for this purpose.)

- Encourage program evaluation as a part of the larger effort to increase professionalism in the economic development field. (We would urge the State of Ohio to make extensive use of this study's findings to re-shape its economic development programs. In doing so, the state will set a positive leadership example to other states, and to the many local governments in Ohio that use economic development incentives.)

- Demonstrate the effect or value produced by truly good evaluations in improving future program results. (This latter recommendation suggests that evaluation results must be used to improve economic development policies and programs. In the absence of this use, future evaluation research will be very difficult, if not impossible, to justify.)

In the same book, Robert Giloth, from the Annie E. Casey Foundation in Baltimore, makes several excellent observations about economic development evaluation research.[12] The CSU study team adds commentary to each of these observations (found in parentheses.)

- Evaluation studies produce an array of conflicting results about impacts. (This problem stems essentially from the different goals and expectations of how these programs should perform.)

- The 'black box' of program administration is not an object of evaluation inquiry. (We believe that the structure and function of agencies, like the Ohio Department of Development, must be changed to solve these administrative problems.)

- Programs are not well designed. A part of the problem is that we do not always know what constitutes a good economic development intervention. (Program design is a major problem seen in Ohio programs, as well as those operated by other states. The 'copycat mentality' that prevails in economic development finance explains, in part, these design failures.)

- A simple demarcation between process and outcome evaluation does not exist; case studies can reveal how incentives produce specific impacts; and comparison groups can shed light on program selection processes, embedded in program design and administration, as well as outcomes. (Until state officials define more specific goals, objectives, and performance metrics to guide program operation, these evaluation problems are likely to persist.)

- Typical economic development indicators, such as jobs, taxes, multipliers, and wealth creation, are frequently imprecise and extremely difficult to measure.

(This is what we term the 'Jobs Mantra,' which causes public and private sector officials alike to justify all economic development projects and assistance in the name of 'jobs.' Fiscal, geographic impact, industry impact, and other measures are sorely needed in the future.)

- Economic development, more than many public policy interventions, is highly sensitive to political context. That is, the design and operation of economic development programs are susceptible to influence by the public and private sectors. (It is our conclusion that incentives are a perfectly logical extension of our federal, state, and local government system across the country. To refer to these programs as 'corporate welfare,' a term used equally by liberals and conservatives, is a serious misrepresentation of this situation. In short, our governance structure and system of political jurisdictions actively encourages governmental units at times to use scarce tax dollars to engage in unproductive and wasteful competition for businesses, jobs, income, positive public relations, and tax base.)

This study of Ohio's economic development programs finds these observations to be very much true. The OEDS project has built upon Giloth's observations about economic development program evaluations. We believe our approach solves some of these problems through an emphasis on how program analysis and evaluation relate to management, and also how performance measures must relate to specific management and policy goals.

Most of the academic literature draws fairly negative conclusions about the real value or effectiveness of state and local economic development incentives. The study team has sought to learn from this research, but we have not been especially impressed by the condition of the academic research on this subject, or its usefulness to real-world policy decision-making. Neither are we impressed with the numerous incentive studies prepared by Big 6 accounting firms and large management consulting companies. The latter studies tend to focus on easier questions related to cost-benefit analysis and how to make incremental improvements to state economic development policies and programs. Having said this, we must admit our own limitations in conducting this study. While providing an excellent foundation for the future, the study team has had to settle for more modest outcomes than we would have preferred to produce because of existing research limitations.

Reliance on Incentives Versus Changing State Business Tax Policy

Should Ohio continue to rely upon tax and financial incentives to encourage economic development, or should the state undertake changes in its business tax policies to accomplish this purpose?

The economic development literature points to the inefficiencies of using incentives to correct (or compensate for) underlying state business tax policy problems. Of course, this was the general conclusion of the Georgia State University researchers preparing the

1996 report *Taxation and Economic Development: A Blueprint for Tax Reform in Ohio* for the Ohio Commission on Taxation and Economic Development. The researchers' basic message was 'Fix the state tax policies that create the problem!' Our study team agrees with this conclusion, but we are also aware of the great difficulty associated with cutting or eliminating major tax revenue sources, like Ohio's onerous tangible personal property tax.

Incentives are seen at best by researchers as 'necessary evils' in a world of politically influenced economic development. In this respect, incentives are a necessary component of economic development strategy and competition. The study team agrees that incentives represent an imperfect treatment that has potentially harmful and unpredicted side effects, if these programs are not used properly, or if they are over-used. However, in the everyday world of individual business and political decisions, incentives are very relevant to the outcomes of specific business location and investment decisions. In short, businesses will go elsewhere if the incentives offered fall short of the request. It may be disastrous for the State of Ohio to abruptly discontinue its business incentive programs. Our experience indicates that changes to these programs must be handled carefully and communicated in an appropriate manner to business executives to avoid unnecessary confusion and problems.

While far from a systematic study of incentives, a recent Time Magazine article series, *Corporate Welfare*, cites several examples of projects using state and local economic development incentives. The series claims that state business incentives should be done away with because they are unfair to the many businesses that do not receive them.[13] Interestingly, the article admits that even Time Warner, Time Magazine's parent, has received millions of dollars of tax abatement developing new facilities. Our judgement is that the Time Magazine series adds little new information about incentives, but its real significance lies in its appeal to the American public that these programs likely cost more than originally stated by public officials. The series levies most of the blame for problems associated with incentives on elected officials and public administrators who create and offer these programs to business.

Incentive Generosity

Exactly how generous are Ohio's incentive programs? How generous does the state's programs need to be to remain competitive with incentive packages offered by other states? In reality, these questions can only be answered on a project-by-project basis since each project demands something different to successfully match or best the competition. Our research indicates that businesses will continue to look to states for financial assistance in the future. This suggests that the State of Ohio will need to define the range within which it is willing to negotiate incentive agreements in the future. The findings of this study will hopefully provide guidance on what this range should look like in the future.

With the use of a computer-based model, we were able to provide better answers to this question. The Tax Incentive and Analysis Model (TAIM) improves understanding of the effects of different levels of tax incentives on a firm's internal rate of return. The CSU

study team decided to include this model in its research methodology because of its unique ability to quantify firm-level impacts. This model is discussed in greater detail later in the report. Like all models, TAIM has its shortcomings, as well as its strengths.

Incentives as Business Risk Insurance

Several earlier researchers have concluded that states are forced to use incentives because other states use them, and because firms demand them to offset known and perceived political, economic, and social risks associated with business location and investment decisions. Our study team would argue that the world is hardly risk-free for anyone, including businesses, state government, schools, and communities. But are these business investment risks actually caused by state and local factors, or do they stem more from global market uncertainties and other strategic business factors? More importantly, are these risks appropriate ones to reduce using taxpayer money?

To the extent that areas use incentives to reduce business investment risk, this may be a worthy issue for more detailed future investigation. In this light, businesses say they need incentives to hedge their bet on a particular business location chosen by the firm. The appropriate question is whether the public should provide the 'insurance money' to cover these business risks? Where the public sector invests in private firms, it may be advisable for state and local governments to seek equivalent insurance from private firms to guard against unanticipated industry and corporate restructuring that causes plant and office closings, and major employment cutbacks. Performance measures that are contained in incentive agreements in part address this risk.

Incentives and Industrial Location

Industrial location research teaches us that there is no 'perfect' location for any business operation. This conclusion should not discourage states and localities from seeking to improve their competitiveness for economic development, but it does suggest that area economic development leaders need to be realistic and very strategic in how they approach these area improvements. This realization will hopefully discourage economic developers from adopting 'cookie cutter' approaches to business climate improvement.

Wilbur Thompson, a distinguished professor of urban economics from Wayne State University and Cleveland State University, said on more than one occasion that "Ohio has long ceased to be a cheap place to produce simple things." This message applies not only to well-established manufacturing states like Ohio, but also to emerging manufacturing centers in the South and other parts of the country. The strategy of being the low-cost provider will in all likelihood not work for Ohio, which must compete in the future more on the basis of its knowledge of how to produce high value-added manufacturing products and services. This does not mean that cost-of-doing-business does not matter, rather it implies that Ohio must compete on the basis of value-creation and quality. The incentives of the future are those that encourage the production of the highest quality goods and services possible for the money.

Trade-offs always exist among state and community locations. Different locations represent different risks and rewards for business investors. One location may offer better transportation benefits, and another may provide reduced labor and energy costs. The specific location advantages sought by firms will also vary by industry. Labor, transportation, utility service, financing, and other resource requirements can be very different when comparing, for example, a mini-steel mill, an auto parts production plant, a data entry back-office operation, and a corporate technology center.

Ultimately the firm must decide whether the selected location can meet its current and future needs for a particular project, with the understanding that the attractiveness (competitiveness) of a particular location for a plant or office facility may (and will likely) change over time. The competitive advantage a firm receives from any resource (real estate, production technology, workers, distribution channel, intellectual property right, loan interest rate, others) is eventually reduced or depleted over time, unless of course 'renewable' resources are utilized. In the tax world, this explains the concept of the depreciation schedule, which recognizes the diminishing value of assets over time. It is far easier to assign depreciation schedules to material goods than services and information and knowledge products. IRS and state tax authorities have been working in this direction for some time, but progress has been slow. In light of the Internet's huge impact on all industries, including retail sales, tax authorities are likely to accelerate their efforts to equitably tax these economic outputs in the future.

This suggests that the firm must constantly evaluate whether its operating location is contributing in a positive or negative way to overall business profits and competitiveness. Changes in production technology, work force adjustments, financial accounting changes, new customer or supplier demands, and a myriad of other factors can cause the firm to see more or less benefit offered by a given facility location. What is the best thing a community or state can offer? Overall, the simple answer is a high-quality and flexible work force and a state-of-the-art infrastructure that supports business innovation and growth. As most areas have discovered, this is no easy task, given the different labor requirements and infrastructure needs of companies and industries.

Most surveys of firms about the importance of incentives in location and investment decisions conclude that incentives are a contributing, and not a driving, factor in these decisions. While some people may debate whether incentives are the third, fifth or the seventh most influential factor, incentives remain 'contributing' factors to most business location and investment decisions. The CSU team's survey of Ohio firms draws exactly the same conclusion: incentives are only a contributing factor to business investment and location decisions. Despite this less than top ranking, the use of incentives in Ohio and across the states continues to grow.

The growth in incentive use is attributed to a myriad of factors, including new market and technology demands, global competitive uncertainties faced by businesses, ongoing business dissatisfaction with business tax costs reducing profitability, and the widespread availability of incentive programs for use by firms. Yes, the availability of these programs itself is a major factor in increasing their use. States and localities nationwide

advertise their incentives to attract business attention. A recent survey of site selection trade magazines revealed that almost 35% of all economic development ads talk about business incentives.[14] Several Ohio economic development ads discuss incentives available to business investors.

Complex Roots of Business Incentives

Where do incentives come from? Why do states and localities use them? These seem like simple enough questions, but in fact they are quite complex issues. The incentive problem clearly runs deeper than what most people think. The practice started long before the name was even used to describe the practice. Incentives have a long history of use in the United States, starting as early as the early 1800s when states like New Jersey and Massachusetts provided industries with infrastructure assistance to encourage them to invest in their states. These origins suggest, as mentioned earlier, that the use of economic development incentives is deeply engrained in our Nation's political economy and our complex inter-governmental system.

If you read between the lines in many economic development policies and strategies, it would appear that state and local governments believe it is their 'right,' and perhaps 'responsibility,' to compete for businesses, jobs, and other economic rewards. Voters, especially during hard economic times, want and expect that elected officials will devote a good portion of their time and public resources to increasing jobs and income benefiting citizens. In other words, public officials have a 'mandate' to develop jobs and the economy. This explains why Alabama paid so much for Mercedes Benz and the jobs it will provide to Alabama residents.

Few people, on the surface, would disagree that government should help foster an increased standard of living and improved quality of life for all citizens. These are 'bread and butter' pocketbook issues that anyone can relate to. But as many elected officials and economic developers are finding out, it matters how this goal is actually achieved. Without a careful examination of strategy options and long term consequences, many public officials simply accept that economic development is a short-term 'incent and run' game. But is it? Is there a better way? This is the ultimate question that the Ohio Economic Development Study must answer. Much is left unsaid, or accepted as 'implicit' public policy, when it comes to economic development. One benefit of this study is that it 'puts the cards on the table' so the key stakeholders can decide what course Ohio economic developers should follow in the future.

The 'trading of tax base for jobs' strategy has become a common practice among political jurisdictions. It is deemed to be an acceptable aspect of American political culture. In light of these facts, we must accept that real solutions to problems associated with using business incentive will require systemic, not piecemeal, actions that relate to the role of government, business, and other societal institutions in our economy. A cultural change is required to alter the current development finance course we are on. As most organizational change agents have found, culture tends to change slowly, often in long-term waves. Maybe if we are lucky, economic development is in store for a new cultural wave.

Incentives are also very much an international competitive phenomenon. It is a mistake to ignore this reality when looking for solutions to Ohio's incentive problem. This does not mean, however, that Ohio should use 'big ticket' incentives to reduce its business operating costs to those found in newly developing nations. Actually, international business costs, especially employment costs, are growing as these nations' economies develop in a more advanced form. It is now commonplace knowledge that national governments, such as Japan, Korea, Brazil, Poland, Hungary, China, and Singapore, have played a major financial role in increasing the export competitiveness of their manufacturing industries worldwide.[15] American companies investing abroad take advantage of incentives offered by foreign governments, just as foreign investors establishing production and office facilities in the United States make widespread use of state and local economic development incentives.

Not too long ago, Japanese firms looking for business sites in the United States were known to frequently consult the "Goodies Book;" that is the National Association of State Development Agencies (NASDA) directory of state business incentives. Major U.S. accounting and management consulting firms also provided their corporate clients with equivalent directories of economic development incentives offered to American firms investing in various foreign countries. We have also seen a new practice emerge where some of the largest business advisory firms actually set their professional service fees based upon how many incentive dollars they are able to help their clients raise.

Imports are now growing more rapidly in the United States market as East Asian, Russian, and other world market growth has slowed considerably due to major economic and political restructuring problems. This has caused floundering foreign firms to redirect their attention to U.S. markets once again, which remain the most stable and profitable in the world. Rest assured that government subsidies, here and at home, are helping many of these foreign firms get a leg up in the U.S. marketplace. This perspective must be considered as we evaluate and recommend future policies to guide Ohio's economic development programs in coming years.

Dealing With the Age-Old 'But For' Clause

It is clear to us from our review of earlier research that this project was not going to prove whether the 'but for' clause actually guides the use of Ohio incentive programs. How many of the public incentive dollars given to firms were unequivocally needed by the firms? This justification runs very deep in economic development policy, but fails to provide much useful evidence on whether business incentive programs really work. The clause has been examined widely in earlier academic research studies hoping to show that firms create jobs and other economic benefits as a direct result of the public incentives they are provided.

The issue appears to be a dead-end from a research standpoint because of the inability to document the actual necessity of incentive investments in most cases. Both firms and governmental agencies continue to assert that private investment decisions would not

have occurred without the public investment provided. Firms must make these assertions to qualify for these programs, and governments must assert the same to show that a valid public purpose is being served by the use of incentives.

Our general opinion is that presently there is no technically defensible way to prove the 'but for' clause issue in Ohio or any state. Moreover, we believe the clause serves no real value in assessing the efficacy of business incentives. The presence of the clause causes both business and government officials to over-estimate the economic benefits and under-estimate the costs produced by projects using incentives. For these reasons, we believe that the 'but for' clause should cease to be treated as the primary, or even a major, consideration in judging whether a firm should receive incentive benefits. In our opinion, the issue of whether the public sector will get paid back is of much greater significance. This is a major departure from the past rules governing the use of incentives, but we believe it is far wiser to work on ensuring that state and local government receives an adequate and expected return on its investment. This is a readily verifiable condition.

Economic Development Competition

Place rivalry is an accepted aspect of economic development policy across the United States. The literature points to two different levels of competition that are relevant to state economic development policy:

- Intra-state competition (which includes both inter-regional and intra-regional competition within the same state).

- Inter-state competition (which includes competition between and among different states).

The literature urges states to avoid 'zero-sum' strategies that encourage areas to simply shift jobs and businesses across municipal and regional boundaries. This claim, of course, is refuted by the community or area on the 'receiving end' of the deal. The situation is viewed as 'zero-sum' only when a larger encompassing geographic area is considered, such as a sub-state region.

Several earlier economic development studies conclude that inter-state and intra-state competition should be reduced or eliminated when high-priced bidding wars occur, causing states and localities to overpay for the jobs they attract. The question is: How much is too much to pay for the attracted or retained jobs? Did Alabama pay too much for the Mercedes Benz jobs it attracted? Did Ohio pay too much for the original Honda plant? The answer in each case depends upon whom you talk to and what economic results they expected to receive from the public investment.

Some states are trying to encourage greater cooperation by in-state locations (communities and regions) to achieve shared economic development goals. Ohio's regional economic development office network, like the long-standing regional programs found in North Carolina and Virginia, are designed to improve communication among

development stakeholders affected by major economic decisions, and to encourage greater joint planning for the future. Our study team believes that a part of the incentive-based competition problem can be addressed by better regional cooperation. We expand upon this idea later.

Most states and localities justify the use of incentives and other economic development investments as necessary to increase area competitiveness for business investment, jobs, and tax revenues. The literature tells us that different models of competition exist, and they offer different implications for the use of incentives. The current debate about the value and importance of incentives is fundamentally about the 'rules' observed in how places compete for limited economic resources. Our study team argues that a new rule should be established that says that incentives should perform to produce greater short and long-term benefits than costs. Moreover, states and localities must be able to 'demonstrate' beyond a reasonable doubt that these benefits are larger than the costs created.

Taxes and Economic Growth

The literature offers different interpretations of the role of taxes in economic growth and development. Differences persist in identifying the role of taxes in economic growth. While many argue that tax cuts stimulate economic growth, others contend that tax cuts create added costs to government and society that must be paid in the future. Largely a federal tax policy debate in the 1980s, the issue has rekindled at the state level in the 1990s over whether state business taxes should be cut as a substitute for using state discretionary tax and financial incentive programs to induce more growth and development.

A recent book edited by David Brunori, *The Future of State Taxation*, finds that the structure of state government taxation has changed very little over the past 30 years. Moreover, little change is foreseen in how states plan to approach taxation in the future, short of a major push for re-structuring from the federal government.[16] The authors point to the growing role of electronic commerce as a potential source of change for state taxes. The debate over who has the right to tax the Internet is likely to go on for some time. Nothing like a new tax target to wake up everyone.

Sales and income taxes account for 65%-70% of state tax revenues nationally and both have good future growth potential. Property taxes remain the domain of local governments. Property tax growth, on the other hand, is more problematic, causing many local governments to turn to their state governments to fund local government services. This is a concern that is growing stronger in statehouses across the country. This concern is relevant to any future strategy that Ohio might consider in balancing incentive use with state and local tax policy. These issues are explored further later in this report.

Dealing With Intended and Unintended Consequences

We live in a world of unintended consequences. Uncertainty marks most aspects of our lives. Many uncertainties surround the use of state economic development incentives. A few questions help to illustrate this point.

What did the State of Ohio intend to accomplish in using its incentive programs over the past 5 years? Were these intentions well understood by the state's major economic development stakeholders? Did the state set clear goals reflecting these intentions? Based upon available data and information, was the state able to accurately measure how well it accomplished its goals? How much did its incentive programs contribute to these goals? What actually happened in the last five years? Did the state's goals have any unplanned and unanticipated consequences? How was the state made aware of any unintended consequences caused by its incentive programs? Were these unintended consequences good or bad in the eyes of Ohio's major economic development stakeholder groups?

These are relevant questions in seeking a better understanding of the impact that state economic development incentives have on geographic areas, industries, and Ohio citizens. Most people recognize that it is not possible to fully predict the short and long term consequences of any type public policy initiative. This is the case with state and local economic development incentives. Many earlier researchers have tried with limited success.[17] A variety of factors reduce the ability to accurately predict what will happen in the future and how these factors will affect development goals. Here are some of the major ones.

First, limited definition and agreement on which goals are to be achieved is a major factor. In many cases, development organizations possess only a general idea of what goals and objectives they intend to achieve. Politicians often want to avoid precise goal statements, fearing the criticism they may receive if these goals are not achieved. Our look at Ohio's economic development goals suggests that more precise goals, objectives, and performance measures should guide the state's economic development programs in the future. This analysis can help this process, but a serious follow-on strategic planning is needed to give this process true integrity.

Second, the probability of success up-front is often not well understood. Past incentive-based competition experiences have led economic development professionals to gauge their chances of landing the deal based upon the amount of public money they put on the table. A look at past performance is of some help in formulating future success probabilities.

Third, inappropriate and weak action strategies often reduce organizational effectiveness in achieving their goals. Piecemeal actions, unguided by a strategic plan, are unlikely to bear much fruit in terms of results. Maybe no amount of spending on state and local economic development programs can accomplish what only the private marketplace, assisted by reasonable government policies, can achieve.

Four, limited resource commitment can reduce goal attainment. Insufficient money, time, political leadership, and other resource limits are major problems. This may suggest that in light of our ambitious goals, we are greatly underinvesting in economic development organizations. Major unexpected changes in the political, social, and economic environment can undermine even the best-planned strategies.

Five, in some instances organizations actually achieve their short-term goal, but this achievement triggers unanticipated consequences jeopardizing long term success. Some critics argue that individual development projects, or deals, produce short-term positive gains in area economic growth, citizen prosperity, and industry competitiveness, but fail to have the desired cumulative impact on the area or its population. This is called winning the 'battle' but losing the 'war.'

Finally, accounting methods vary in how states and localities keep score on whether they are making sufficient progress in achieving their economic development goals. This was the heart of a recent joint study conducted by the National Association of State Development Agencies, the Upjohn Institute, and Cleveland State University's Urban Center on state economic development incentives.[18] Despite its shortcomings, counting jobs, or the *Jobs Mantra*, prevails as the most frequently used yardstick to measure economic development success. States, like Ohio, are beginning to introduce fiscal and other types of performance measures.

Many of the OEDS Advisory Committee's questions point to the need to understand both the intended and unintended consequences of using the State of Ohio's economic development incentives. This is a problem in all aspects of public policy, not only economic development.[19] Both are difficult, but the latter, or understanding the unintended consequences of public policies, is certainly far more difficult.

The intended impacts of government programs are more easily identified when they are clearly defined as program and organizational goals and objectives. Unfortunately, our research finds that a high level of goal ambiguity exists in the case of state economic development programs. A portion of this ambiguity may be attributed to the political process and the inability to resolve goal conflicts stemming from different public and private sector stakeholder interests. Also, the sophistication of state agencies affects their ability to set clear and achievable goals. Another problem is rooted in the competition between and among state and local development organizations, where regions and localities desire a high degree of independence in how they approach economic development within their area and resist state government intervention.

Competition's Different Dimensions

The terms 'competition' and 'competitiveness' are used frequently in economic development. The study team believes that a complete understanding of these issues is vital to resolving the national debate over public economic development incentives.

Competition is often narrowly defined as rivalry among private firms for markets and economic resources. Many economic scholars and economic development practitioners argue that an open and freely competitive marketplace should be preserved. In light of the myriad of ways that government intervenes in private economic affairs, it is questionable whether this situation actually exists anywhere in the world, including the United States. Economic developers, government officials, and the public believe that it is acceptable and expectable that private firms will compete with one another, as long as ethical rules and other societal values are preserved. Where these rules are not adequately observed, competition is considered 'unfair' by definition. In the context of the global economy, American companies have discovered that different rules guide competition in different nations.[20] These differences greatly complicate the process of determining whether competitive behavior is fair or unfair. This larger global context is the most appropriate one in which to consider this study effort.

The term 'competition' is also used to describe the rivalry that occurs between and among political jurisdictions for businesses, jobs, and tax revenues. The notion of place-based competition is also considered legitimate in the context of economic development. Our study team would argue that other less-recognized forms of competition occur in economic development, such as how firms compete with each other for labor resources, or how different levels of government compete for tax revenue sources. We argue that the nature of business incentives is closely linked to all these forms of competition. To ignore these other dimensions of competition, one is distorting the true complexities underlying why state governments use economic development incentives.

Government, private enterprise, and citizens expect different outcomes from the state and local economic development process. In this respect, they 'compete' with one another for scarce economic resources and opportunities to satisfy their different economic and financial goals. Competition is important to all these stakeholder groups. It is not restricted to the private sector where people most commonly associate competitive behavior. The competitive dimension is integral to achieving an adequate understanding of the role of economic development incentives. A few examples help to illustrate this point.

Businesses compete with other businesses locally, nationally, and globally for new market opportunities and various other economic resources that enhance their profitability. Competition for customers and business sales is understood by most people. Businesses also compete with each other for economic development resources, such as scarce labor skills, highly productive site locations, energy resources, and many other limited economic resources. This latter dimension of business-to-business competition is often ignored. People expect businesses to compete with other businesses, but a second dimension of business competition must also be understood: businesses and governments compete with each other for scarce financial and economic resources. Businesses do not want to pay any more taxes than absolutely necessary. As demands for government service increase, governmental units seek to increase their revenues from tax collections from businesses, citizens, and consumers.

Citizens are also a part of the competitive formula in a state or community. People compete for the better employment opportunities in a local labor market, public services, and other economic goods. In return, governmental jurisdictions find themselves competing with each other for residents. As improved interstate highway access reduces the compute time to employment and recreational and entertainment facilities, central cities, suburbs, and exurban locations in the same region find themselves competing for upwardly mobile residents, who can choose from a vast array of residential options within a 30-minute drive time compute.

Economic Development Stakeholder Priorities

We have observed in our research that states and localities show a distinct tendency to view economic development stakeholder goals in a hierarchical sense, with businesses coming first, surprisingly government second, and at times citizens actually coming last. This may not be the intended ordering by government officials, but it appears often to be the outcome. This issue is important because it affects who gets incentives and what type incentives are actually offered by states to encourage economic development. In short, citizens are often an afterthought in the economic development race. Given the growing role of human capital and knowledge in the economy, these priorities may change in the very near future.

Most economists would readily agree that the private sector is the primary force underlying economic growth. Businesses create the majority of the jobs and income in society. They create these jobs to satisfy their need for labor inputs. They do not create jobs because jobs are good for society and serve a public purpose. It just so happens that the employment effects of business expansion have had, by and large, a positive impact on society. Job creation in this sense is an unintended consequence of business growth.

Are businesses really the primary catalyst for economic development in this light? We believe they are the major drivers, but we also believe that government and the nonprofit sector are greatly understated in their importance in stimulating economic development.

The primacy given to business is justified on the basis of 'investment economic theory', which contends that business expansion, fueled by investment, creates sufficient economic opportunities, especially jobs and income, for all segments of society. We are in basic agreement that private business is the chief agent of economic growth. However, we believe that government policy plays a very significant role in shaping business investment and economic growth trends at the national, state, and local levels.

As we look at the future, we believe there is a need to offer greater incentives to private citizens to use their own resources to improve their labor market skills, become more computer literate, and pursue self-employment opportunities to create wealth in the future. These incentives are grossly insufficient in our look at Ohio and other states. This need should be addressed as a part of this project, especially since corporations will not be able to provide an adequate number of high-quality, wealth-building type jobs in the future. The self-employment and entrepreneurial development path must help to fill

this void in the future. Ohio's entrepreneurial climate is not as strong as that found in many other states, according to earlier studies by Inc. Magazine, the Corporation for Enterprise Development (CFED) and other publications.

Current Abilities to Measure and Predict Program Performance

This project is about helping Ohio's economic development programs to perform better in the future. Given the state of knowledge and skill in this area, our study team concludes that performance measurement and improvement is not as easy as it may sound. While Ohio officials may insist that state economic development program monitoring and evaluation activities be increased in the immediate future, substantial progress in this area will take some time. Clarifying goals and broader expectations that guide these programs must be given equal attention, otherwise monitoring and evaluation efforts will produce little benefit. For this reason, our report provides guidance to the State of Ohio on future economic development goals.

Program monitoring and measurement tools are new and generally not well understood by practitioners and policy makers. Like most new initiatives, education and training are needed to implement them successfully. This will also be the case with respect to this study's recommendations. These tools are focused, in large part, on understanding the intended impacts of incentives and economic development programs. Unintended impacts are far more difficult to identify, especially where there is little awareness that these impacts exist.

Recent surveys and analyses indicate that state and local economic development organizations are working toward a more integrated and comprehensive understanding of how their programs function.[21] This is an advantage offered by programs that are designed and managed with clear performance targets in mind.

Many state and local economic development officials are working harder to clarify the role or impact their organizations and programs have on state and local economies. Evaluation research can help in this regard. However, this process is complicated because of the influence of a myriad of governmental and marketplace factors influencing economic growth, spatial development patterns, public and private sector investment behavior, and the competitiveness of places for different types of economic development.

Proposed Conditions Justifying State of Ohio Incentive Assistance

Economic development organizations need an alternative to the 'but for' clause as a justification for their investments. We believe that the State of Ohio must be very clear about its reasons for offering incentives and other types of economic development assistance to firms and communities. We offer guidance on those conditions that could serve as legitimate justifications for using these public sector programs and tools. There are eight justifications that we think should be considered.

As a starting premise, government typically sees itself as the 'banker or investor of last resort.' This means that it invests public resources in an economic development project if: 1) a public purpose is served by the investment; and 2) the private marketplace is not willing or able to respond to the opportunity or need because a major barrier prohibits it from doing so. Historically, job creation has been widely accepted by all levels of government as a public purpose worthy of public assistance. The crux of the age-old 'but for' clause is that the private marketplace is unwilling to invest, unless (but for) government assistance in one form or another.

The problem to this point has been that the State of Ohio did not have the ability to decide why, if at all, it should intervene in the economy. This study will help the State of Ohio in this regard. The most common explanation offered in the past was simply that the project would not move forward otherwise, and the desired economic development benefits (jobs, taxes, etc.) would not occur. Few politicians have been willing in the past to take the chance of not investing in a project, fearing that Ohioans would be denied the opportunities promised by the private investment. In short, government's failure to act might cause serious injury to the public well-being. In this 'Age of Activist Government,' most elected officials nationwide have been inclined to act first and justify later. This is just one of many ways that government attempts to cope with the rapidly changing world that demands increasingly upon it for answers to its many complex problems.

The OEDS Advisory Committee has requested that the study team provide it with options or choices in how to address incentive issues. The eight justifications described below offer the State of Ohio a range of choices in how it rationalizes why it invests its time and money in development projects. As a manager of public resources, the State of Ohio must be clear about its basis for intervention in private economic affairs. Otherwise, there is no guarantee that state government is acting equitably and responsibly.

Incentives may be offered by government to private firms and individuals where the ability to successfully implement a beneficial economic development projects is seriously limited or precluded because:

Justification 1 - Private Market Failure: A significant market failure occurs, reducing the competitiveness of the area to undertake the development project, and posing a serious threat to the economic security of private firms and/or individuals in an economic area. For example, distressed urban and rural real estate markets do not respond adequately to new market demand because of the presence of brownfields and outmoded business facilities. Government must intervene to help these real estate markets to recover and develop the ability to respond to future demand.

Justification 2 - Unintended Government Policy Impact: A governmental policy creates or significantly contributes to unanticipated negative economic consequences for private firms and/or individuals in an economic area, and these negative consequences jeopardize the ability of the area to undertake the economic development project. For example, an excessively high tax increases the cost-of-

doing-business to the point where firms will not make future business investments unless these tax costs are reduced directly or indirectly.

Justification 3 - Sudden and Severe Economic Dislocation: A population's economic security is seriously threatened by a sudden and severe economic dislocation, such as a major industrial plant or government facility closing that accounts for a major portion of the community's jobs, income, and tax base. Under this condition, a governmental entity is justified in providing public financial assistance because of the potential economic damages and losses that could be created for residents and the community.

Justification 4 - Structural Barriers: A population suffers from major structural (legal, social, economic, technological) barriers to employment and wealth creation. For example, impoverished and under-educated populations directly excluded or indirectly hindered from full access to economic opportunities may qualify for government assistance in developing the skills and information needed to access higher quality employment opportunities.

Justification 5 - Presence of Serious Competitive Disadvantage: A worthwhile economic development project that could produce very substantial economic benefits to an area cannot move forward because of pre-existing competitive disadvantages that greatly increase the community's cost of supporting or undertaking the project. In the absence of government intervention, the competitive disadvantage would not be overcome or reduced enough for the project to move forward. The absence of adequate physical infrastructure to serve the project area is one such type of competitive disadvantage.

Justification 6 - Strategic Industry Sector Argument: It may be appropriate at times for government to intervene to assist firms in an industry sector that has very special importance to the area. A 'strategic' industry sector can be a well-established industry of historic importance to the area, or it can be an emerging industry sector. A couple of examples illustrate when this justification may be appropriate. State government intervention may be required to prevent significant economic distress caused by the closing of a large facility due to unforeseen public policy and market factors. An intervention to assist the growth of a promising emerging industry sector may be justified if a market failure or some other barrier prevents it from occurring.

Justification 7 - Overwhelming Positive Benefits: At times, economic development project opportunities may present themselves that offer the potential for overwhelmingly positive economic benefits to the area, and warrant government assistance to develop or attract these benefits. Under this condition, the project's short and long term benefits are demonstrated to greatly exceed its costs. Government intervention can be justified in this case where this overwhelming benefit can be proven.

Justification 8 - Regional or Inter-jurisdictional Cooperation: When public sector costs of economic development can be reduced through inter-jurisdictional cooperation, government should provide assistance to economic development projects encouraging and utilizing this cooperation. Joint Economic Development Districts (JEDDs) already exist for this purpose. Other arrangements should also qualify for public assistance under this condition.

Table 1 below provides a guide to the State of Ohio in deciding which justification is most appropriate in different circumstances.

Table 1
Appropriate Public Justifications for Different Economic Development Projects

Justification	Major Business Relocation/ Closing	New Business Recruitment/ Expansion	Distressed Community Redevelopment	Non-Distressed Community Development
Private Market Failure	X		X	
Unintended Government Policy Impact	X	X	X	X
Sudden and Severe Economic Dislocation	X		X	X
Population Structural Development Barriers	X	X	X	
Serious Competitive Disadvantage	X	X	X	X
Strategic Industry Argument	X	X	X	X
Overwhelming Public Benefit	X	X	X	X
Regional, Intergovt, or Public/Private Cooperation Benefit	X	X	X	X

The analysis presented in Table 1 indicates that the eight proposed public sector intervention justifications can apply under a wide array of economic development project situations, including in both economically distressed and non-distressed communities. The justifications also apply almost equally to projects involving existing local companies and new firms locating in an area. We often underestimate the complexity of state and local economies. These economic units are integral components of the overall national and global economies, which give definition and direction to the functioning of these smaller economic sub-systems. This broader set of public intervention justifications improves the State of Ohio's ability to make better decisions in the face of these complexities.

These eight conditions are referred to throughout this report, where they are more clearly defined in relation to Ohio's economic development programs. It is very likely that some economic development projects will be affected by more than one of these conditions. This is especially the case in highly distressed communities that have not been able to recover successfully for long time periods. In the absence of one of these eight

conditions, the State of Ohio should not provide economic development incentives to a firm, community, or private individual.

These justifications can be used as operational project evaluation criteria by the State of Ohio when it assesses whether and how much to invest in a particular economic development project. The logic in this case is that a greater public sector investment can be justified as more of these justifications are determined to be relevant to the project. As can be seen, the eight justifications closely inter-relate with one another in many cases.

Possible Indicators of Justification Conditions

The first step is to determine whether a particular public intervention justification is relevant to a situation. This can be best accomplished by using appropriate indicators. We have suggested some that we believe are worthy of the State's consideration. During the implementation-planning phase of the project, these indicators should be tested to determine their usefulness. In many cases, the same indicator can be associated with different public intervention justifications.

Private Market Failure

The following 10 indicators can be used to point to the presence of a private market failure that impairs an economic development opportunity from developing:

1. Low level of new private investment.
2. High level of private disinvestment.
3. Low level of public investment.
4. Low demand and utilization for existing real estate (brownfields).
5. Low demand and utilization of existing labor supply (low/non-skilled labor).
6. Earlier failed attempts by private investors to develop in the area.
7. Declining property values.
8. Reduced demand for utility and energy service.
9. Declining area tax base.
10. High perceptions of risk voiced by private business investors.

Unintended Government Policy Impact

If lucky, government is able to achieve its intended goals because of the major obstacles standing in its way. Government has a limited ability to identify the unintended consequences of its actions. New information and communications technologies offer the prospect of increasing our understanding of how action toward one goal or priority can possibly affect others. Research of this type can increase awareness of the complex web of interactions and relationships exist in economic development. Unintended impacts can only be understood if intended impacts are defined. This suggests that government economic developers must first clarify their goals and expectations of what they hope will occur as a result of their actions. Here are some possible indicators of unintended iimpacts of governmental policy:

1. Costs of the action outweigh the benefits produced.
2. Short-term actions preempt long term capacity to act.

3. Sum of individual project decisions produces an undesirable overall pattern of development.
4. Observable unexpected negative side effects occur as a result of actions (e.g., premature obsolescence of economic assets or technology).
5. Inequities are created for geographic areas, population segments, and even industries in terms of the costs and benefits of growth.

Sudden and Severe Economic Dislocation

This justification was embodied in a series of economic development initiatives created by the Economic Development Administration within the U.S. Department of Commerce many years ago. Sudden and severe economic dislocations often occur unexpectedly. Sometimes a community sees the hand writing on the wall, but most often these dislocations are a surprise (shock) to the community. Large plant closings are a common example of this type situation. Today, economic development organizations try to develop advance warning of these changes through research and a variety of business retention actions. Possible indicators of this condition include:

1. Occurrence of major plant or office closing.
2. Serious negative ripple effects of a major facility closing.
3. National or regional economic recession or downturn caused by unexpected (unpredicted) events.
4. Collapse of a real estate, labor, or financial market due to sudden economic, social, or political changes.

Population Structural Development Barriers

These barriers are most commonly associated with disadvantaged and minority populations that experience inter-generational poverty and unemployment problems. Structural barriers can be caused by low levels of educational attainment, cultural factors (e.g., Amish, American Indians), racial, ethnic, sexual, religion, or age-based prejudice, class structure, family and other institutional influences, and a number of other factors. Indicators of this condition include:

1. High concentrations of unemployed or underemployed individuals, sharing the same population characteristics, in an area.
2. Persistent and chronically high rates of unemployment in a population.
3. Persistent and chronically high rates of poverty in a population.
4. Persistent and chronically high rates of low educational attainment in a population.
5. Known cultural factors limiting the range of employment opportunities considered to be acceptable by the population.
6. Poor educational test scores and other indicators of poor educational performance.

Serious Competitive Disadvantages

Distressed communities are most often troubled by the presence of disadvantages reducing their attractiveness (competitiveness) for economic development. These disadvantages can be caused by a number of factors, including:

1. Low public and private investment levels (under-investment).
2. Depleted or obsolete labor, real estate, infrastructure, and other development resources.
3. Mismatches between resource supply (availability) and resource demand (future use).
4. Lack of strategic planning to guide public and private sector economic development actions.
5. Over-demand for strategic resources causing a shortage of the desired resources.
6. Negative area image creating the perception of high investment risk.
7. Overpowering competition (other geographic areas) that attracts the majority of investment and other development resources.
8. Sudden and severe economic dislocation that causes the collapse of local markets. External events cause the disadvantage to emerge.
9. Unintended outcome of public policy.
10. Presence of major population structural development barriers.

Strategic Industry Argument

Governments at times invest in economic development projects because of the strategic importance of an established or emerging business, institution, or industry to the growth and development of the local or state economy. Some call this 'industrial policy,' where government seeks to act to fix industry problems or pick industry winners. The practice of industry targeting has emerged in response to this policy. The federal government justified its 1980s Chrysler Bail-Out on the grounds that it had to act to preserve a competitive marketplace and because of the unintended consequences of federal regulatory policies that placed a major short-term investment burden on American car makers.

The Strategic Industry Intervention Argument is used where:

1. An existing major firm, institution (government facility), or industry is faced with a severe threat to its future existence, and government intervenes to protect the industry or resource.
2. An emerging industry sector (e.g., biotechnology, artificial intelligence, etc.) offers favorable area economic development potential, but a private market failure or other condition prevents the marketplace from responding to the opportunity.
3. An area determines that a specific industry or economic resource is vital to its future prosperity and well being, the market is not producing much growth of this industry or resource in the area, and government intervenes to stimulate growth and development.

Overwhelming Public Benefit
At times, government may choose to act simply because of the substantial benefit that can be produced by an economic development project. In other words, the economic benefits produced are much higher than the cost of the public intervention. Most economic development projects are unlikely to meet this condition. More realistically, this situation may be appropriate under the following circumstances:

1. After careful analysis, the government determines that benefits greatly exceed costs in a direct and overall impact sense for the identified area.
2. The project yields economic benefits that spillover into other jurisdictions, thereby contributing to regional or larger area economic development.

Regional, Intergovernmental, and Public-Private Cooperation Benefit
Governments may choose to invest in an economic development project because it encourages cooperation by governmental units, or between government and the private sector. Cooperation is usually not an end in itself, instead it provides other benefits that are desirable to government and the public interest. These include;

1. Public service economies of scale that cannot be achieved without cooperation.
2. Infrastructure coordination that benefits development patterns region-wide.
3. Tax base-sharing that benefits all concerned parties.
4. Market-sharing by areas that provides real estate, labor, financial, and other resources not otherwise available to them.

Admittedly, there are some overlaps in the justifications identified, but the study team believes they remain relevant. As the State of Ohio defines its future economic development priorities, these justifications should help state government to decide what is the most appropriate role for it to play in Ohio economic development. Some governmental officials will favor certain justifications over others, which leads us to the issue of 'overall policy orientation.'

Possible State Economic Development Policy Models

Ohio governors over the years have followed different basic approaches to economic development. State 'paradigms' for economic development have changed over time, as discussed in Appendix III.

The eight justifications can be examined in the context of four distinct state economic development policy models, reflecting unique postures on government's role in economic development. Table 2 below identifies these four policy model options. The use of business incentives differs in these models.

Table 2
State Economic Development Policy Model Options

Justification	Model 1: Laissez-Faire Market (Least Intervention)	Model 2: Minimalist Intervention	Model 3: Public-Private Partnership	Model 4: Central Planned/ Managed Economy (Greatest Intervention)
Private Market Failure	No	Yes	Yes	Yes
Unintended Government Policy Impact	No	Yes	Yes	Yes
Sudden and Severe Economic Dislocation	No	No	Yes	Yes
Population Structural Development Barriers	No	No	Yes	Yes
Serious Competitive Disadvantage	No	No	Yes	Yes
Strategic Industry Argument	No	No	Yes	Yes
Overwhelming Public Benefit	No	No	Yes	Yes
Regional, Intergovt., or Public/Private Cooperation Benefit	No	Yes	Yes	Yes

The results in Table 2 indicate that none of the justifications are deemed as an appropriate rationale for government intervention in Model 1 (Laissez-faire Market). Only three justifications are considered appropriate in Model 2 (Minimalist). Model 3 (Public-Private Partnership) and Model 4 (Planned/Managed Economy) could utilize any and all of the justifications identified. The difference between Models 3 and 4 is simply a matter of degree, or the extent of reliance on the justifications. If one views Model 4 as an extreme intervention model, then the Public-Private Partnership Model is seen as much less oriented to intervention. Based upon the research for this study, most states fall along a range with the Minimalist Model at the most conservative extreme and the Public-Private Partnership as the most liberal policy approach.

The central premise of each of the four models is as follows:

1. **Laissez-faire Market:** The best action by government is no action. This Adam Smith type of concept is virtually non-existent among the states. In fact, we can find no example of this policy model in use. This is the ultimate belief in the marketplace to take care of itself, without any help from government. No public sector incentives exist under this model.

2. **Minimal Interventionist:** Government must intervene only in matters of public security and safety, or where other challenges to the public well being exist. This is a fairly strict view of marketplace primacy in economic

development. Public incentives are virtually nonexistent, and instead tax policies are used to provide the most competitive environment for economic growth and development.

3. **Public-Private Partnership:** Government should intervene where a strong willingness and ability to succeed is evident, and where private sector success is contingent in part upon appropriate public sector action. The underlying premise is that the private marketplace should lead economic development, but appropriate public sector assistance is justified. A full range of public incentives and other forms of assistance are common under this model, but tax policy strategies are also used to increase business competitiveness. The vast majority of states follow this model.

4. **Planned/Managed Economy:** Government should always lead the economic development process. Moreover, government ownership of economic assets is common. All economic activities are considered the domain of the state. The private sector is small to negligible in size, and depends upon planned resource allocation by government. Incentives are irrelevant under this model. We see no evidence of this model being used by states.

CHAPTER 4 - ASSESSMENT OF OHIO'S ECONOMIC COMPETITIVE POSITION

Strategic Approach

This section provides an assessment of Ohio's competitive position relative to its competitors and the nation as a whole. Any state's competitive position for economic development changes over time. We live in an ever-changing world, therefore, it is reasonable to expect that states will gain and lose competitive advantage for different economic development opportunities over time. This is a dynamic process that requires a state to continuously evaluate its best economic development opportunities, and renew its resource base and strategies to compete for these opportunities.

Ohio's economic competitive position is a function of six primary strategic factors and issues, which is illustrated in Figure 4 below. State business incentive programs relate all six of these factors. Effective strategic thinking about incentives will lead state officials to consider its finance and tax programs and policies on all six levels.

1. **Economic Opportunities:** What are Ohio's best current and future opportunities (such as growth-oriented manufacturing and service industries, growing occupations, innovative technologies, entrepreneurial growth, travel and tourism, international exports, and foreign direct investment), to develop the state economy and its component regional economies over the next decade? Opportunities are a function of the state's existing economic base, the state's component local or regional economies, the surrounding Great Lakes economy, and the national and global economies. Opportunities can originate both within and outside the state. (States design incentives to improve their ability to compete for specific opportunities. Ohio has been using most of its incentive dollars in the manufacturing sector over the past quarter century. The Edison Program, for example, assists Ohio industry to take advantage of the growth opportunities associated with innovative new technologies.)

2. **Economic Problems/Challenges:** What are Ohio's leading economic problems, or challenges (such as industry restructuring, regulatory and tax policy barriers to growth, economic distress, poverty, state and local government fiscal problems, tight labor markets, and unemployment), which the state must overcome in the next decade? Economic problems stem from a myriad of in-state and external events, changes, causes and influences. (States also use incentives to overcome economic problems being experienced by places, people, and industries/firms. The Ohio Enterprise Zone was originally envisioned as a tool to encourage economic development in highly economically distressed places. The program's policy intent has changed since its origination.)

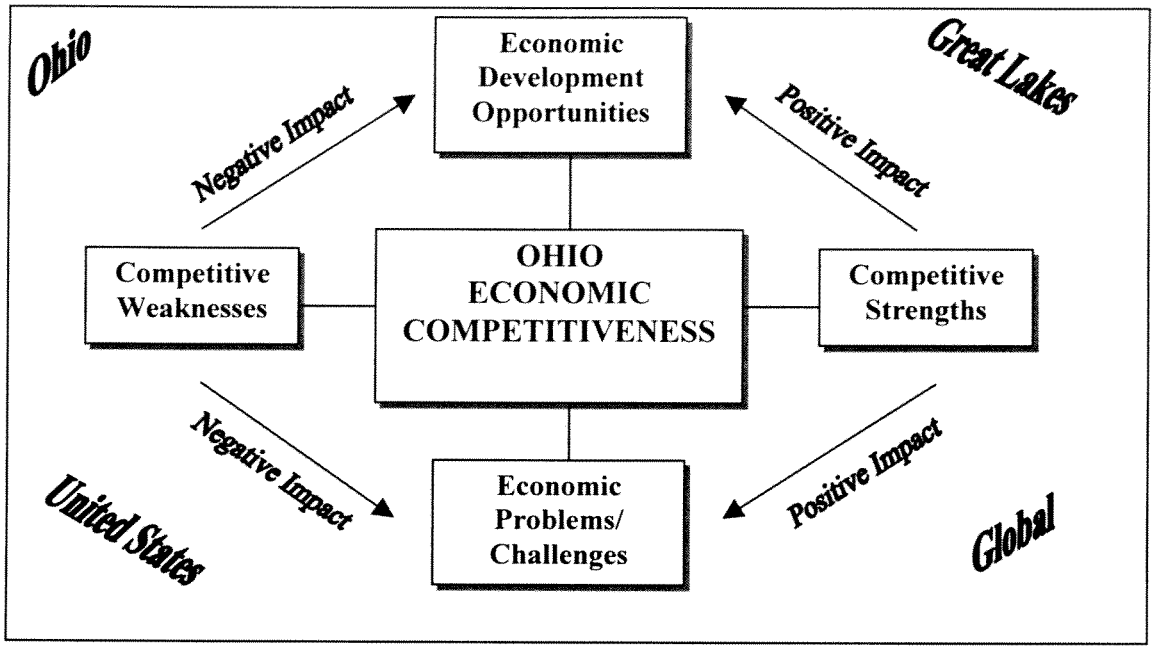
3. **Competitive Strengths:** What are Ohio's major strengths in developing its major economic opportunities and overcoming its chief economic problems? Strengths relate to the quality and availability of public sector and private marketplace resources to develop opportunities and overcome problems. (Incentives can become a source of competitive strength for a place by lowering business investment and operating costs for a firm. State incentives can also lower local governments' development costs; where for example, state dollars are used to finance new community infrastructure needed to support a local business investment.)

4. **Competitive Weaknesses:** What are Ohio's major weaknesses (barriers, impediments) that limit its ability to develop economic opportunities or overcome problems? Competitive weaknesses, like strengths, relate to the quality and availability of public sector and private marketplace resources. (Incentives are often designed with the purpose of reducing or eliminating a barrier that threatens future business investment and economic growth. Ohio's Enterprise Zone Program, for example, is seen as a strategy to reduce the negative cost impact of the state's tangible personal property tax on business investment.)

5. **Competitive Environment:** What is the nature and strength of in-state and out-of-state competition for those top-priority economic development opportunities being pursued by the State of Ohio and its network of public and private development organizations? Competition usually occurs on the basis of resource cost, availability, quality, timing. [Incentives play heavy in influencing the competitive behavior of areas (political subdivisions) competing for business investment and location projects. The most intense rivalry is currently felt at the intra-regional level, where communities in the same economic region compete for expanding and relocating businesses. Incentives also play a significant role in inter-state and inter-regional competition for economic development.]

6. **Economic Development Strategy:** What is the best overall strategy that state government, in cooperation with its many public and private sector development partners, should follow to develop Ohio's principal economic development opportunities and solve its outstanding economic development problems? (The key components of this strategy include: future economic vision, performance-based goals and objectives, guiding policies, over-arching strategies, operating programs and organizations, specific development targets and performance measures, and strategic action plans.)

Figure 4
Strategic Environment for State Economic Development Competitiveness



Ohio Economic Development Opportunities

Most states, local governments, and private development organizations attempt to identify their best future prospects for growth and development. Some follow elaborate strategic planning and research processes to make these choices. Others take a more 'common-sense' approach to this identification process. One systematic practice used toward this end is 'industry targeting research,' which reflects a form of government industrial policy. The policy states that certain industries are more important than others because of their economic and other impacts. Explicit government industry policies have not been a large factor in the American economic tradition, but they have always played some role in the American political system. The federal government, despite its claims to the contrary, has always maintained special development policies favoring agriculture, defense, energy, and transportation industries. Many states, regions, and communities have moved in this direction in their efforts to support the growth and development of particular industries.[22]

Industry targeting practices stem from a common assumption. That is, if companies are going to 'pick' places as locations for business facilities, then states and communities should have the ability to 'pick' industries they believe represent their best future growth prospects. Properly done, industry and cluster analyses can teach states, regions, and communities a great deal about their competitive strengths and weaknesses for economic development. This is a distinct benefit of these studies. States should however exercise caution in what they conclude about public policy actions taken to help the growth of specific industry sectors.

The State of Ohio currently gives attention to a diverse set of economic development opportunities. In an overall sense, the State of Ohio has followed an 'opportunistic' development strategy that combines three primary elements: 1) being responsive to and supportive of general industry and business expansion; 2) supporting the development of statewide and regional industry clusters and strategic industry sectors driving the Ohio economy; and 3) investing in the strategic development of the technological, human resource, financial, and public service infrastructures needed to support the overall expansion of the Ohio economy and its component local economies.

In large part, Ohio's current development strategy focuses on manufacturing industries, although some attention is given to service industries of strategic importance. Emerging industries, such as electronic commerce, software development, biotechnology, and others receive technology development assistance through the state's Thomas Edison Program. The Ohio Department of Development, in cooperation with its various regional development partners, has selected target industries and clusters for priority development attention. These are identified below, along with other development opportunities being given attention by state government.

Full-blown statewide cluster-based development strategies, such as those found in the states of Arizona, California, Connecticut, Florida and North Carolina, do not exist in Ohio. Formalized regional cluster-based economic development strategies have been developed in some areas, like Akron, Cleveland, Columbus, and Dayton. In many cases, these regional cluster development strategies appear to be in synch with the technology focus of Edison technology centers found in these regions. Cleveland State University's Urban Center recently assisted regional development organizations in Greater Cleveland with such a strategy in 1997-1998.[23] The clusters identified are linked to many of the region's major technology strengths.

Table 3 assesses State of Ohio development opportunities in terms of their current and future priority. The priority rankings are based upon qualitative information collected from the Ohio Department of Development and other sources. The absence of formalized strategies to capitalize on these opportunities reflects the need for greater future research and planning related to development targets. Well-researched and written development opportunity strategies are essential to making these development programs 'performance-based' in the future. It is not possible to judge the results produced from business development, marketing, financial, and technological, and human resource actions aimed at firms in these industries.

Our review of other state development strategies indicates that states are making increased use of industry and cluster-based development strategies. To the extent that cluster-based development strategies and other target industry approaches help call attention to the industries driving Ohio's economy, it is logical to utilize these strategies. Because of the complex industry mix and political landscape found in Ohio, it is important that the State of Ohio work very closely with its major regional development partners in the adoption and creation of cluster development strategies.

This raises a vitally important public policy question. Should these target industries and clusters receive special assistance from state and local government? Should special incentives be adopted and used to foster the growth of these industry targets? What is the intended impact of such policies, and will they create any unintended consequences that might be harmful to non-target industries or the Ohio economy in general?

Our review shows that some states are simply encouraging firms in these target industries and clusters to locate in their states. Others are working closely with firms already located in their states to modernize with new technology and human resources. Several of the states, like Oregon and Washington, are emphasizing the role of firms working in networks to compete, grow, and development.

Table 3
Assessment of Ohio Development Opportunities

Development Target of Opportunity	Estimated Current Importance[24]	Projected Future Importance[25]
I. Industry Clusters:		
Aerospace*		
Retention/expansion:	MH	MH
Attraction:	L	L
Startup:	NR	NR
Engineering materials*		
Retention/expansion:	H	H
Attraction:	H	H
Startup:	NR	NR
Automotive/motor vehicles*		
Retention/expansion:	VH	VH
Attraction:	H	L
Startup:	L	L
Information/communications*		
Retention/expansion:	H	VH
Attraction:	H	VH
Startup:	MH	VH
Agribusiness/food processing*		
Retention/expansion:	MH	VH
Attraction:	MH	VH
Startup:	M	M
Travel and tourism*		
Retention/expansion:	VH	H
Attraction:	H	H
Startup:	L	M
Health and pharmaceuticals*		
Retention/expansion:	MH	H
Attraction:	M	H
Startup:	MH	H
Industrial processes*		
Retention/expansion:	M	VH
Attraction:	L	MH
Startup:	M	M

Table 3 Continued
Assessment of Ohio Development Opportunities

Development Target of Opportunity	Estimated Current Importance[26]	Projected Future Importance[27]
II. Other Development Targets:		
General manufacturing*		
Retention/expansion:	VH	VH
Attraction:	VH	VH
Startup:	MH	H
Call service centers*		
Retention/expansion:	M	MH
Attraction:	H	H
Startup:	L	L
Corporate headquarters		
Retention/expansion:	MH	VH
Attraction:	MH	MH
Startup:	NR	NR
Corporate tech centers		
Retention/expansion:	M	H
Attraction:	M	M
Startup:	NR	NR
Foreign investment*		
Retention/expansion:	MH	VH
Attraction:	MH	MH
Startup:	NR	NR
Export trade promotion*		
Europe	M	H
Asia	MH	H
Latin/South America	MH	H
Environmental industries		
Goods and equipment	L	MH
Services	L	M
Technology startups*		
Manufacturing sector*	MH	VH
Service sector	L	MH
Electronic commerce*		
Retention/expansion:	M	H
Attraction:	M	VH
Startup:	M	VH

Key: *means the opportunity is currently given attention by the State of Ohio;
VH = very high; H = high; MH = medium high; M = medium; L = low priority; NR = not relevant

Recommended Approach to Development Opportunities

Ohio should utilize a mix of targeted and non-targeted approaches to economic development. It is unlikely that states will ever have sufficient knowledge to accurately pick industry winners in the future. Wall Street, with all its methods of forecasting and prediction, struggles with the problem of picking winners, and yet, people, companies, and governments invest place their bets daily on the stock market. For this reason, it would be unwise for the State of Ohio to solely rely on a targeted economic development strategy. It is equally unwise for state officials to simply sit back and accept whatever 'economic hand' the national and global economies deal Ohio. Planning and proactivity

are important tools for shaping the future world. Not to use these tools would be a mistake for Ohio, especially since many other states will employ them.

We believe the State of Ohio should use best available information and knowledge to determine which industries will contribute most to the state's future growth. A statewide industry cluster development strategy, done properly, can provide this knowledge. The state should develop performance-based strategies to provide a favorable economic environment for the future growth of the state's driving industry clusters. This effort should also identify those emerging industry clusters that offer favorable future growth potential in Ohio. At the same time, Ohio should continue to remain open to new, unknown, and unforeseen opportunities that come its way from any industry. The 'strategic openness' approach requires that the State of Ohio monitor changes in its economy on a very regular basis, and be able to react to new developments very quickly.

This is one way to look at the role of the Ohio Economic Development Study project. The study will provide the State of Ohio with invaluable insights about how well its current economic development strategy--at least the financial components of that overall strategy--has been working. This report provides useful advice on how the State of Ohio can more appropriately use incentive programs and other state policies to improve its ability to achieve its primary economic development goals, which is more precisely what competitiveness is about.

In this light, we judge the value of the vast majority of state business and economic climate ratings as inadequate guides on how states should approach improving their economic development competitiveness. Most of these rankings encourage 'static thinking' about opportunities. The media overplays these rankings, elected officials either spend too much time touting or fretting about their rankings, and businesses hold bad rankings over state officials' heads to justify larger incentive requests. This is exactly what we do **NOT** want this study to do. Therefore, we have avoided the 'simple rating and ranking' approach to judging economic competitiveness.

Development opportunities are time-specific. This suggests that 'locking-in' forever to fixed development opportunities, such as particular industries, occupations, or technologies, is illogical. Because of the complexities of the economic development marketplace, it is tempting for state economic development organizations to create 'capacity;' i.e., development policies, programs, and strategies, which they keep in place for long time periods. This appears to be true of state financial and tax incentive programs, which are authorized and appropriated year after year, with only minimal consideration of whether they are doing what they are supposed to be doing.

The general rule of thumb is that as long as businesses and communities use the programs, they are needed and they are doing somebody some good. The 'use rule' is a limited way to look at the role of business assistance programs in economic development competition. States that truly want to increase their competitiveness will look at the factors or reasons underlying why these programs are used. The Ohio Commission on Taxation and Economy pinpointed many of the major problems with Ohio's tax system

that cause problems for business investment and expansion in the state.[28] If these general tax system problems were corrected, then the demand for Ohio public incentive programs would decline considerably.

Learning From Nevada

While an entirely different state than Ohio in economic, political, and demographic structure, Nevada poses an interesting contrast in how a state uses its tax and other policies to support economic competitiveness. Nevada ranks as the fastest growing state nationally in terms of population, and it consistently ranks as one of the nation's top job growth leaders. Nevada's tax structure continues to be one of the least burdensome in the United States. Unlike most other states, Nevada does not impose a: franchise tax; corporate income tax; personal income tax; franchise on income tax; inventory tax; special intangible, chain store, admissions, inheritance, estate and/or gift taxes. Nevada's state tax system is its largest incentive for business growth and development.

Nevada does levy a $25 per full time job business license tax, which produces $65 million annually for state operations. Nevada gaming taxes provide nearly $500 million annually, or about 1/3 of the state's total annual revenues, to help finance state government operations.

Opportunities are the positive motivation for economic development policy and strategy. States also face problems that complicate their ability to compete. One of the underlying rationales, or justifications, for creating public incentive programs, is to overcome or reduce the impact of cost-related and other competitive disadvantages that hinder a state's ability to develop certain opportunities. Ohio's tangible personal property tax is clearly an impediment to manufacturing sector growth in Ohio communities. This tax is problematic to Ohio because many other states do not tax business inventories and capital equipment. The absence of this tax elsewhere creates a competitive disadvantage for Ohio. The State of Ohio has responded to this particular competitive problem by creating and using local enterprise zones, which provide some relief to manufacturers that must pay tax on tangible property.

That does not mean that industry targeting or cluster-based development is not rational. Rather, it means that a state development agency, and its public and private development partners, must have the ongoing information and knowledge to understand which opportunities should be pursued in a given timeframe. We believe that the State of Ohio's future economic development strategy should embody this dynamic concept of competitiveness.

All economic opportunities have 'windows' defining when is the best time to pursue a given development target. This is why economic forecasting is ongoing in nature. When the window is 'open,' this is the best time to pursue the opportunity. When it is 'closed,' this is not the best time to pursue it. The key is having the business and economic intelligence to know the difference. Obviously, 'risk' is an integral aspect of the business world, and, therefore, it is a reality for economic development. Valid information and knowledge can help to reduce risks, but cannot altogether eliminate them.

We hold that Ohio's economic competitiveness must ultimately be judged by how effectively and efficiently state government achieves its economic development goals and objectives. Contrary to the view that economic states use business incentives to enhance or improve their ability to compete, Ohio today is more competitive in some respects, and less competitive in other respects, than it was a decade ago. It is important to understand how Ohio's competitive advantages have changed over time, as well as how Ohio compares to its competitors. This understanding will help state officials plan future changes to state business incentives and tax policies that overcome disadvantages and those that build advantages in the future.

State Business Climate Analysis

Ohio's Overall National Economic Standing

While Ohio has made some progress in the 1990s in restoring economic growth, Ohio's economy has experienced significant long-term share declines relative to the nation. This slippage is observed in population, personal income, employment, and gross state product. These long-term declines should be a cause for significant concern by State of Ohio officials, as they attempt to chart a course for the future. These long-term trends suggest that Ohio's current economic development strategy is not having a sufficient impact to counter the state's loss of national economic position. These trends are summarized in Table 4 below.

Table 4
Ohio's Is Losing Share of the National Economy
Percent Share of National Total

Leading Indicator	1980	1990	1996	2025(F)
Population	4.8	4.3	4.2	3.5
Total Employment	4.8	4.6	4.4	3.8
Total Personal Income	4.7	4.1	4.1	3.7
U.S. Gross State Product Total	**4.2**	**4.0**	**3.9**	**3.7**

Sources: U.S. Bureau of Economic Analysis, U.S. Census Bureau, 1997 Ohio Statistical Abstract, and the Statistical Abstract of US, 1997. (F) = forecasts.

Population Share

After more than two decades of decline, Ohio's population has resumed a slow growth course during the 1990s. Ohio lost population steadily in the 1980s, when growth accelerated in many southern and western states, due to higher migration, birth, and immigration levels. Yet, Ohio's population growth in the 1990s has not been sufficient enough to stave off a continuing decline in its national population share. U.S. Bureau of Census' forecasts suggest that Ohio will continue to lose national population share to the year 2025, even though the state will gain 593,000 people between 1995 and 2025. By comparison, California is expected to add nearly 17,700,000 new people over the next 30 years, which is a gain larger than the State of Ohio's total population. Population growth rates are important to economic development because of their role in shaping labor

market growth, consumer market size and demand, and a variety of other factors. For these reasons, population growth should be considered as one of several leading indicators of Ohio economic development performance.

Table 5
State Population Growth Comparison, 1980-2025

State	1995 Pop. (000)	1980-90 % Chg	1990-95 % Chg	2025 Pop. (000)	1995-2025 % Chg	Rank 1995-2005
Ohio	**11,134**	**0.5**	**2.6**	**11,744**	**5.4**	**10**
Indiana	5,797	1.0	4.6	6,546	12.9	7
Michigan	9,538	0.4	2.6	10,078	5.7	9
Kentucky	3,857	0.7	4.6	4,314	11.8	8
West Virginia	1,825	-8.0	1.8	1,845	1.1	12
Pennsylvania	12,060	0.2	1.5	12,683	5.2	11
North Carolina	7,202	12.8	8.6	9,349	29.8	3
South Carolina	3,667	11.7	5.2	4,645	26.7	6
Virginia	6,615	15.8	6.9	8,466	28.0	4
Tennessee	5,247	6.2	7.6	6,665	26.9	5
Texas	18,801	19.4	10.7	27,183	44.6	2
California	31,565	25.7	6.1	49,285	56.1	1

Source: U.S. Census Bureau Population Series, 1998

Ohio's population growth has been minimal in the past twenty years, and is expected to be very low over the next 25 years. Ohio's population growth is expected to be faster than only West Virginia and Pennsylvania during the 1995-2025 period. According to the data presented in Table 5 above, Ohio's population will only increase by 5.4% during the forecast period. California's population will grow 10 times faster than Ohio's during the period.

Employment Share

Employment growth is the most commonly used yardstick by states and communities to judge economic development performance. Since 1980, Ohio's share of national employment has declined from 4.8% to 4.4%. Despite the state's attention to economic development, Ohio's share of national employment is projected to drop to 3.8% of the nation's total jobs by the year 2025. This represents a full 1% share decline between 1980 and 2025. One percent of the nation's projected 188,329,000 jobs in the year 2025 represents 1.88 million jobs. These 1.88 million jobs equal 34% of Ohio's 5.47 million total jobs in 1998.

Population growth and employment growth are inter-dependent trends. Ohio's expected weaker future job generation ability will contribute to future population losses in Ohio and, vice versa, the state's slower population growth will reduce Ohio's capacity to grow new jobs. In all likelihood, a faster state population growth would have helped to alleviate the tight labor market conditions experienced in Ohio over the past 3 years.

Regional Financial Associates (RFA), of West Chester, PA, forecasts that Ohio's short term employment performance (1997-1999) will rank 42nd nationally. RFA sees even further problems ahead for Ohio, as the state's employment growth falls to 46th lowest during the 1997-2002 period. The effects of slower national economic growth, reduced exports, and significant declines in durable goods manufacturing performance are seen as the chief sources of this projected statewide job decline.

Personal Income Share

Total personal income is a common measure used to judge the wealth creation occurring in a state or local area. Wealth creation in Ohio has slowed since 1980. Between 1980 and 1990, Ohio's share of the Nation's total personal income declined from 4.7% to 4.1%. This 0.6% share loss equaled nearly $31 billion in personal income in 1990. If Ohio had maintained its 4.7% share of the Nation's total personal income in 1996, the state would have generated an additional $38.5 billion in personal income, which is more than the State of Ohio's current biennial budget.

This reduced wealth generation also contributes to reduced tax revenue growth. In tax year 1995, Ohio taxable personal income equaled $176.84 billion, and Ohio personal income tax after all tax credits equaled $5.55 billion.[29] Net state personal income taxes represented 3.1% of total taxable income in 1995. If this same 3.1% was applied to the earned income portion (72%) of this $38.5 billion in lost personal income, then Ohio lost an estimated $86 million in personal income taxes in 1996 due to its 3.1% national personal income share loss.

Per Capita Personal Income Performance

Per capita personal income is a measure of how total personal income is distributed across the state's population. Twelve states are compared in Table 6 below.

Table 6
Per Capita Personal Income Comparisons, 1993 and 1997

State	1993	1997	Percent Change 1993-97/Rankings
Ohio	**$20,237**	**$24,203**	**19.6 (5)**
Indiana	19,651	23,183	17.9 (10)
Michigan	20,937	24,998	19.4 (6)
Kentucky	17,212	20,599	19.7 (4)
West Virginia	16,307	18,734	14.9 (12)
Pennsylvania	21,635	25,678	18.7 (8)
Virginia	22,139	26,172	18.2 (9)
North Carolina	19,140	23,174	21.1 (1)
South Carolina	17,139	20,651	20.5 (3)
Tennessee	19,140	22,752	18.9 (7)
Texas	19,535	23,647	21.0 (2)
California	22,388	26,218	17.1 (11)

On a per capita personal income basis, Ohio experienced the 5th fastest growth during the 1993-1997 period. Only four states had faster growth: North Carolina, Texas, South Carolina, and Kentucky. States were more similar in their per capita personal income performance in 1997 than in 1993, where greater differences were seen. In part this difference is explained by stronger national economic growth in 1997 which raised incomes across states.

Personal income data for the first 3 quarters of 1998 indicate that 26.4% ($53.4 billion) of Ohio's total non-farm personal income was produced by the manufacturing sector. Services accounted for a near comparable 25.4 % ($51.4 billion) of this total. Services have gained steadily on manufacturing as a source of income for Ohio residents since the mid-1980s.

Gross State Product Share

Between 1980 and 1996, Ohio's share of U.S. gross state product (close to GDP total) declined from 4.2% to 3.9%. The state's share is projected to drop by another 0.2% to 3.7% by the year 2025, according to U.S. Bureau of Economic Analysis forecasts. The 0.5% share loss during the 1980-2025 period is significant since it reflects reduced economic output by Ohio industries, which in turn reduces the demand for labor and other economic resources in Ohio.

State and Local Economic Performance

Ohio Compared to Its Competitors

This section presents a series of state comparisons of how Ohio is performing in terms of population, gross state product, per capita personal income, state tax revenues, business operating costs, personal and business tax burden, educational attainment and spending, and other factors. This analysis is based upon state business climate research conducted by Growth Strategies Organization (Vail, CO), and additional research conducted by CSU Urban Center staff.

Governmental Structure Comparison

Our earlier analysis indicated that Ohio is losing its share of national economic growth. Future growth occurring in the state will be spread across a large number of existing governmental jurisdictions, suggesting that the level of economic development competition among these political jurisdictions will intensify in the future as these jurisdictions compete for fewer overall economic opportunities.

Table 7 compares Ohio with its bordering and non-border competitor states in terms of the number of governmental entities.

Table 7
Ohio Governmental Structure Compared to Competitor States

State	Total	Counties	Cities	Townships	School Districts	Other
Ohio	**3524**	**88**	**942**	**1314**	**666**	**514**
Indiana	2899	91	566	1008	294	940
Michigan	2722	83	534	1242	585	273
Kentucky	1321	119	435	0	176	591
West Virginia	692	55	231	0	55	351
Pennsylvania	5159	66	1022	1548	516	2007
Virginia	455	95	230	0	0	130
North Carolina	938	100	516	0	0	130
South Carolina	698	46	269	0	91	292
Tennessee	924	93	339	0	14	477
Texas	4792	254	1171	0	1100	2267
California	4393	57	460	0	1078	2802

Source: Statistical Abstract of the United States, 1997, Bureau of Census.

Only three competitor states have more total governmental units than Ohio: Pennsylvania, Texas, and California. All of the larger population states, including Ohio, suffer from very complex political economies, created by the presence of numerous larger rivaling population centers. Rivalry among smaller jurisdictions for economic development opportunities is also significant. Most states report that competitive rivalry for businesses, jobs, and population is the greatest among neighboring jurisdictions, which points to the strength of intra-regional economic development competition. While significant differences exist in state and local tax structures found in the 12 states, it is evident that economic development competition for tax base by political jurisdictions is very significant in all of the 12 states.

Only four of the states compared (Ohio, Indiana, Michigan, and Pennsylvania) have a township form of government in existence. This suggests that unincorporated areas factor high in economic development competition in these states. Some of the townships found in these states are fairly large; some have populations between 25,000 and 50,000 people. Many incorporated municipalities in these states are actually smaller than townships in population size.

The number of school districts found in the states varies from 1,100 in Texas to none in the states of Virginia and North Carolina, where public schools are run by city and county governments.

As we show elsewhere in this study, the economic and fiscal health of Ohio's 3,524 governmental units varies considerably. Large central cities and counties have the greatest concentrations of poverty, unemployment, brownfields, and they experience the most problems with declining tax bases. A number of Ohio's poorer rural counties face similar problems caused by economic distress. Increasing attention is being given to the plight of inner ring, or first-tier, suburbs, as many now face the same social and economic problems as their central city neighbors. School districts also vary considerably in their fiscal resource bases and educational performance characteristics.

While considerable attention has been devoted to governmental restructuring in the public administration field, political resistance to changing its structure has slowed efforts to make local government more efficient and effective. Regionalism, however, is receiving increased attention across the country as local governments cooperate to provide water, sewer, transportation, educational, and other services. Unlike the corporate world, where mergers and acquisitions take place as a way of improving industry profitability and efficiency, the governmental world has been slow to set aside its political borders to do the job better, faster, and cheaper.

The governance structure of a state influences competition patterns for economic development opportunities. While our fragmented system of government may satisfy our political need for independence and self-determination, it also imposes a drag on overall economic growth to the extent that it allows redundant and inefficient public services to exist. Our study team finds that the **MAJOR** reason why states and localities rely so heavily upon business incentives is because they desire to operate autonomously, and because economic development incentives reinforce the current governmental and tax structure in place. The message is simple: If states and local governments want to rely less on economic development incentives, then they need to fix the underlying problems with their government structures and tax systems.

A recent book by the National League of Cities, National Conference of State Legislatures, and the National Governors' Association points to how global economic change has placed pressure on shrinking state and local tax bases.[30] This is precisely the issue addressed by the Ohio Commission of Taxation and Economic Development just three years ago. That is, the State of Ohio needs to reform its tax structure to get in step with today's changing economy. While the National League of Cities' book makes several legitimate points, it fails to make two key policy recommendations that should be considered to make Ohio more competitive in the future. The first is that people and businesses rely too much on government at all levels to solve our basic social, economic, and cultural problems in society, and they need to give future incentive for private markets and the voluntary sector to meet these needs in the future. Second, the structure of our inter-governmental system must change before tax policies will change. At present, state and local government has little incentive to change its nonproductive rivalry for businesses, jobs, and taxes.

As the State of Ohio searches for solutions to its deep-seated business incentive problem, it should recognize that the roots of this problem lie in the state's tax system and governmental structure. Various appropriate solutions should be considered by state and local government in Ohio, including the responsible and orderly consolidation of some local government units, innovations in regional service delivery, privatization of appropriate public services, and formation of new public-private partnerships to serve public needs.

Gross State Product Growth

Gross state product (GSP) measures the total economic output of states. Table 8 compares Ohio with its competitors in terms of growth in total GSP and manufacturing GSP. Only three states--Pennsylvania, Michigan and California--experienced slower total GSP growth during the 1987-1996 period than Ohio. Ohio's 22.9% increase in GSP ranked 9th of the 12 states. This sluggish growth performance is a significant indication of Ohio's declining competitiveness for economic development.

In 1987, manufacturing output represented 28.5% of Ohio's total GSP, compared to a comparable 28.7% share in 1996. Only three states had a higher manufacturing GSP share than Ohio in 1996: Indiana, Michigan, and North Carolina. While manufacturing has retained it share of Ohio's total GSP, Ohio manufacturing GSP has declined in its share of total U.S. manufacturing. This is an important perspective to bear in mind when assessing Ohio manufacturing competitiveness. In 1977, Ohio produced 7.2% of total U.S. manufacturing GSP. In 1987, Ohio had a 6.25% share of U.S. manufacturing GSP, which dropped in 1996 to only 6.1% of U.S. manufacturing GSP.

Table 8
Gross State Product Growth Comparisons
(Millions Chained 1992 Dollars)

State	1987 Total GSP Size	1996 Total GSP Size	1987-1996 Percent Change	Total GSP Growth Rank	1987 Mfg GSP/ Total GSP	1996 Mfg GSP/ Total GSP
Ohio	**228,411**	**280,706**	**22.9**	**9**	**28.5**	**28.7**
Indiana	108,067	144,116	33.4	4	30.2	33.5
Michigan	197,540	241,038	22.0	11	32.5	28.4
Kentucky	67,390	89,258	32.4	5	28.6	29.9
West Va.	27,963	35,031	25.3	7	18.1	17.8
Penn.	244,643	298,726	22.1	10	20.6	22.3
Virginia	147,121	183,187	24.5	8	24.7	26.2
North Carolina	142,040	190,910	34.4	2	33.5	29.8
South Carolina	62,582	82,716	32.2	6	25.9	28.3
Tennessee	96,388	128,724	33.5	3	24.2	24.2
Texas	356,193	502,903	41.9	1	15.9	18.1
California	741,923	880,091	18.7	12	15.2	15.8

Cost of Doing Business Comparison

Regional Financial Associates (RFA) develops an annual index showing how state cost of doing business compares to the US average. Table 9 below compares Ohio with Indiana, Pennsylvania, and Michigan using the RFA index. An overview index (CDB) and sub-indices for tax, energy, and labor costs are included.

Table 9
State Cost of Doing Business Comparison[31]

	1987	1990	1993	1997
Ohio				
Tax Index	99.62	102.63	104.07	105.15
Energy Index	93.67	94.83	93.4	94.3
Unit Labor Cost Index	97.99	96.29	99.88	97.04
Composite CDB Index	97.5	96.71	99.33	97.44
Indiana				
Tax Index	89.88	87.48	86.82	92.85
Energy Index	88.78	82.09	76.85	82.21
Unit Labor Cost Index	96.52	95.45	96.47	95.06
Composite CDB Index	94.69	92.65	92.56	92.91
Michigan				
Tax Index	106.87	105.21	103.42	115.19
Energy Index	108.81	115.34	111.28	104.67
Unit Labor Cost Index	104.38	106.55	108.61	109.53
Composite CDB Index	105.29	107.73	108.49	109.36
Pennsylvania				
Tax Index	95.09	93.1	99.32	96.48
Energy Index	113.28	116.22	113.45	114.69
Unit Labor Cost Index	102.32	104.01	101.41	99.49
Composite CDB Index	103.24	104.75	103.01	101.47

In 1997, Ohio had the second best overall Cost of Doing Business (CDB) Index of the four states compared. Only Indiana had a lower CDB index than Ohio. Ohio's business tax costs ranked 3rd best of the four states. Ohio's tax cost index was only better than Michigan's. Ohio had the 2nd best energy cost index among the four states. Only Indiana had a better energy cost index. Finally, Ohio's unit labor cost index was the 2nd best in 1997, with only Indiana having a better labor cost index. These state index rankings were identical for 1987, indicating that Ohio has maintained its position from a cost of doing business perspective.

Relative to the nation, Ohio's tax costs have risen significantly, from 99.92 in 1987 to 105.15 in 1997. Ohio's energy and unit labor costs declined very slightly compared to the nation between 1987 and 1997.

State Tax Burden Comparisons

The impact of state taxation on residents and businesses varies across states. Table 10 provides an analysis of three measures of state tax impacts in the twelve study states.

This analysis indicates that Ohio ranks 5th best in terms of the cost of total state taxes per capita. Ohio's $1,467.97 per capita is much better than California and Michigan;

considerably better than Kentucky, West Virginia, Pennsylvania, North Carolina, and the U.S. average; somewhat better than Indiana; but worse than Texas, Tennessee, South Carolina, and Virginia. Ohio's state taxes per $100 of personal income is the 4th lowest of the states compared. Only Tennessee, Texas and Virginia have lower rates than Ohio. Ohio rates even considerably better than the U.S. average of $6.87 per $100.00. Ohio rates less favorably when examining its reliance on state corporate income taxes. Ohio's reliance on corporate income taxes is the 5th highest among the 12 rated states. Only Indiana, Michigan, West Virginia, and California have a higher state corporate income tax as a percent of total state taxes percentage.

Overall, these three measures indicate that Ohio's state taxes are more competitive for individuals than businesses. A more in-depth analysis of Ohio business tax burden is provided in the next section, which presents the results of an analysis, by Growth Strategies Organization for this study.

Table 10
Comparative State Tax Impacts, FY 1997

State	State Tax Revenue Per Capita	State Taxes/$100 Personal Income	Corporate Income Tax as % of Total State Taxes
Ohio	**$1467.97**	**$6.25**	**8.3**
Indiana	1552.00	6.90	9.9
Michigan	2079.58	8.48	11.0
Kentucky	1744.88	8.88	4.3
West Virginia	1600.19	8.77	8.6
Pennsylvania	1612.09	6.47	8.1
Virginia	1429.71	5.72	4.4
North Carolina	1701.46	7.75	6.9
South Carolina	1431.22	7.28	4.4
Tennessee	1232.54	5.66	7.2
Texas	1184.46	5.40	0.0
California	1911.09	7.63	9.4
U.S.	1660.34	6.87	6.9

Business Tax Burden

Growth Strategies Organization (GSO), Vail Colorado, was retained to conduct an analysis of the State of Ohio's business climate.[32] The GSO analysis examined 11 states, including Ohio. Since the GSO analysis, the CSU study team added California as a 12th comparison state for new comparisons made.

The measurement of the business tax burden in any state is very complex. GSO examined the business tax burden on Ohio and its competitors. The results indicate that the business tax burden in Ohio is the fifth lowest among the eleven states. Ohio's business tax burden is 10% higher than in Kentucky or Virginia; 2% higher than in Indiana and North Carolina; about the same as in South Carolina; 9% lower than in Texas; 22% less than in West Virginia or Tennessee; 33% less than Pennsylvania; and 58% less than in Michigan.

Ohio's business tax burden, expressed as a percent of gross state product, has risen modestly in this decade. Ohio's business taxes represented 1.44% of gross state product in 1992 and 1.50% in 1995. Kentucky and Virginia have the lowest business taxes as a percent of gross state product at 1.37% and 1.38% respectively. Most other states also experienced modest increases in this measure. The exceptions were Pennsylvania, Indiana, and Virginia, where the business tax burdens declined modestly. Business taxes represent 17.03% of total taxes in Ohio, compared to a low of 15.33% of total taxes in South Carolina and a high of 24.12% in Pennsylvania.

A more detailed breakdown of how much different industries contribute to Ohio tax revenues is provided later. A glance at tax year 1996 data indicates that 49.5% of Ohio's $867 million in corporate franchise taxes were paid by manufacturing businesses. Service and retail trade businesses combined for another 20% of the total.

Worker Compensation and Unemployment Insurance Costs

Using U.S. Department of Labor data, GSO estimated the cost of workers compensation and unemployment insurance on businesses in the 11 states compared. The two measures were combined to provide an overall cost percentage for the states. Ohio ranks 8th overall among the study states, 9th on workers compensation costs, and 8th on unemployment insurance costs. Only Kentucky, Pennsylvania and West Virginia had higher combined costs of these two taxes. A typical business would pay half as much on these mandated benefits in Indiana and Virginia, and only one-third as much in Tennessee and North Carolina.

These costs have changed in Ohio over time. Ohio's worker's compensation cost, expressed as a percent of covered payrolls, rose from 1.96% in 1985 to 2.37% in 1992, before dropping back to 1.92% in 1995. Ohio's unemployment insurance cost, also expressed as a percent of covered payrolls, declined from 0.82% in 1986 to 0.50% in 1995.

Labor Costs

Statewide labor-cost comparisons do not provide a very useful understanding of whether a state is more or less competitive in this dimension. Labor costs tend to vary by sub-regions found within a state. While GSO offered statewide comparisons, these have not been employed as part of our final analysis of Ohio's competitive position. It is our recommendation that labor costs be judged on a county basis to ascertain their influence on competitive position.

Regulatory Environment

Businesses tend to see some government regulations as barriers to competitiveness. Some regulations also protect businesses. GSO used a composite regulatory index, which accounts for environmental, legislative, and employment regulations. Ohio ranks 8th among the 11 compared states on GSO's composite rating index, meaning that seven states rated better than Ohio. While Ohio had the third best level of environmental risk, it ranked 9th on its propensity to impose environmental regulations that exceed national standards. Ohio's state legislature ties for 5th best on overall performance, from a

business perspective. Ohio is one of six states in the comparison without Right-to-Work legislation, which is considered an advantage by most businesses.

Public Infrastructure Quality

A high-quality public infrastructure is essential to competitive business performance. GSO uses several measures to compute an overall composite index rating public infrastructure quality: highway condition; bridge condition; sewage treatment needs per capita. Even with some problems, Ohio ranked better than all but one state (South Carolina) on the overall index. The analysis indicates that all the states examined had much work to do on improving the condition of their public infrastructures for economic development.

Educational Spending

Educational spending does not necessarily correlate to educational performance, but it does provide an indication of the state's commitment to education as a social priority. GSO uses U.S. Department of Education spending data for its rankings. Ohio falls roughly in the middle of the states compared, with a per capita spending level of $1,331 on all education (K-12 plus higher education). Five states spent more than Ohio and five spent less. The state rated 6th on K-12 spending, and 8th on higher education spending per capita.

Because of the importance of this issue to state officials, CSU has augmented the GSO analysis with some additional data, which are described in Table 11 below. The data come from the Education Commission of the States and the National Education Association. They relate to only K-12 educational programs.

Ohio ranks 9th in per pupil spending, according to the Educational Commission of the States data. Only four states in the group had lower average annual expenditures.

Table 11
Educational Spending Rankings, 1996-1997

State	Expenditure Per Pupil & Rank		Percent Local Revenue	Percent State Revenue	Percent Federal Revenue
	Amount	Rank			
Ohio	**$5909**	**9**	**52.8**	**41.3**	**5.9**
Indiana	6424	4	42.4	52.6	5.0
Michigan	7318	2	25.6	67.8	6.6
Kentucky	5959	8	25.5	66.5	8.0
West Virginia	6902	3	28.9	62.8	8.4
Pennsylvania	7561	1	53.0	41.4	5.6
Virginia	6370	5	57.8	36.8	5.4
North Carolina	5381	10	28.6	64.2	7.1
South Carolina	4990	13	58.2	32.0	9.8
Tennessee	5286	12	40.8	50.8	8.4
Texas	6041	7	49.4	42.9	7.8
California	5327	11	31.7	59.9	8.4
U.S. Average	**6335**	**6**	**44.5**	**48.7**	**6.8**

Only two states--South Carolina and Virginia--had lower state percentage contributions to K-12 education than Ohio. Pennsylvania's state share of educational funding equaled Ohio's. Most of the variation among the states occurred in the local government share of public education funding.

Tax Incentive Comparison

Because incentives are viewed as a competitive advantage by businesses evaluating state business climates, a comparison of the major tax incentives offered by the twelve comparison states is included here. The results are described in Table 12.

Table 12
Tax Incentive Comparison

State	Property Tax Abatement	Invest-ment Tax Credit	Job Creation Tax Credit	TIF	CRA	Enter-prise Zones	R&D Tax Credit
Ohio	**Yes**	**Yes**	**Yes**	**Yes**	**Yes**	**Yes**	**Yes**
Indiana	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Michigan	Yes	Yes	Yes	No	Yes	Yes	Yes
Kentucky	No	Yes	Yes	No	No	Yes	No
West Virginia	No	Yes	Yes	No	Yes	No	Yes
Pennsylvania	Yes	No	Yes	No	Yes	Yes	Yes
Virginia	Yes	No	Yes	No	No	Yes	Yes
North Carolina	No	No	Yes	No	No	No	Yes
South Carolina	Yes	No	Yes	Yes	No	Yes	Yes
Tennessee	Yes	Yes	Yes	No	No	Yes	No
Texas	Yes	No	No	Yes	No	Yes	Yes
California	No	Yes	No	No	Yes	Yes	Yes
State Totals	**8 Yes/ 4 No**	**7 Yes/ 5 No**	**10 Yes/ 2 No**	**4 Y/ 8 N**	**6 Y/ 6 N**	**10 Yes/ 2 No**	**10 Yes/ 2 No**

Source: National Conference of State Legislatures, 1998

Ohio uses all six tax incentive programs described in Table 12. Three tax incentives are used across nearly all 12 states: job creation tax credits, enterprise zones, and R&D tax credits. Tax increment financing (TIF) is the least used tax incentive across the states. The results of this analysis indicate that businesses would rate Ohio's business climate positively from a tax incentive availability perspective.

Business Climate Factors Competitiveness Summary

Table 13 summarizes the GSO business climate analysis presented earlier. In general, Ohio's statewide business climate factors are about average when compared to these ten benchmark states. It excels in the quality of its physical infrastructure and faces considerable competitive disadvantages in the cost of manufacturing labor, and its investment in education. It is at a moderate disadvantage on two other factors — personal tax burden and worker compensation insurance costs. For most business climate factors, Ohio falls somewhere in the middle when compared to the ten benchmark states — better

than some, about the same as some, and worse than some. In other words, being in Ohio is neither a strong advantage nor a serious disadvantage for communities within Ohio.

Table 13
GSO Business Climate Factors Summary

Business Climate Factor	Ohio Is Better	About The Same	Ohio Is Worse
Physical Infrastructure	9	0	1
Labor Quality	7	1	2
Image as a Business Location	7	1	2
Business Tax Burden	5	3	2
Public Policy Stability	3	5	2
Business Services Labor Cost	5	2	3
Financial Management	4	3	3
Insurance Carriers Labor Cost	5	1	4
Higher Education Resources	5	1	4
Business Incentives	4	2	4
Professional Services Labor Cost	5	0	5
Skills Training Resources	2	3	5
Investment in Physical Infrastructure	2	3	5
Unemployment Insurance Costs	4	0	6
Labor Availability	3	1	6
Regulatory Environment	3	1	6
Distribution Labor Cost	1	3	6
Personal Tax Burden	3	0	7
Worker Compensation Insurance Cost	2	1	7
K-12 Education Quality	2	0	8
Investment in Education	2	0	8
Manufacturing Labor Cost	1	1	8

Industry Sector Competitiveness

GSO has constructed a computer model of the business location decision process for categories of business facilities in broad industry sectors. This model assigns relative importance values to each of the foregoing business climate factors for several categories of business facilities. When we introduce state response values for each of these factors, we get indices of statewide competitiveness. The results are presented in Table 14.

The conclusion to be drawn from the results in Table 14 is that being in Ohio is neither a major asset nor a major liability to economic development opportunities for communities in the state. About half of the benchmark states are more attractive than Ohio for every kind of business investment, but companies do not select locations at the state level. At this stage, they only eliminate states with one or more unacceptable business climate attributes. Ohio is not likely to be eliminated by most companies so its communities can still compete for new or expanding business facilities in any of these categories of business facilities.

Table 14
State Competitiveness as a Location for Broad Business Categories
GSO Analysis Ratings

Type of Business Facility	Ohio Is Better	About The Same	Ohio Is Worse
Administrative Offices	KY, PA, WV	MI, TX, VA	IN, NC, SC, TN
Information Services — High Wage	KY, PA, WV	MI, TX, VA	IN, NC, SC, TN
Business Services	KY, PA, WV	MI, TX, VA	IN, NC, SC, TN
Information Services — Low Wage	PA, WV	KY, MI, PA, TX	IN, NC, SC, VA
Manufacturing — Low Wage	MI, PA, WV	KY, TN, TX	IN, NC, SC, VA
Research and Development	KY, WV	MI, PA, TX, VA	IN, NC, SC, TN
Manufacturing — Mid Wage	KY, MI, PA, WV	TX	IN, NC, SC, TN, VA
Distribution	KY, MI, PA, WV	TN	IN, NC, SC, TX, VA
Insurance Carriers	KY, MI, PA, WV	TX	IN, NC, SC, TN, VA
Professional Services	KY, PA, WV	MI, TX	IN, NC, SC, TN, VA
Manufacturing — High Wage	KY, PA, WV	MI	IN, NC, SC, TN, TX, VA

Ohio communities generally have a competitive edge over communities in West Virginia, Pennsylvania, Michigan, and parts of Kentucky. They are often at a disadvantage when competing with communities in the Carolinas, Indiana, Tennessee, and Virginia. Statewide factors produce no clear difference between Ohio and Texas. In examining the competitive comparisons in this table, remember that many local factors are more important in the final selection of a site. For example, access to research-oriented universities specializing in a specific discipline is a critical factor for siting research facilities. Thus, several individual Ohio communities are likely to enjoy a competitive edge over most communities in South Carolina or Tennessee even though these states have an advantage over Ohio on factors shared by all communities in a state.

State Economic Issues

Business Climate Improvement Issues

The term "business incentives" is most often used to cover a range of economic development tools. Some incentives are really actions taken to correct past failures to do what government is expected to do in maintaining a sound physical infrastructure and providing an employable labor force. Others are investments designed to attract business facilities that will pay handsome dividends to a community over time. Some investments will never return a dividend that justifies the expenditure.

While Ohio cannot afford to "unilaterally disarm" in the business incentives war, it must commit more resources to fixing the underlying problems that make some incentives necessary. Most southern states that may have a competitive advantage over Ohio today

on cost factors and on the availability of incentives, have not devoted enough attention to finding a permanent fix for their most serious underlying problem — labor force quality. Many have excellent skills training programs, such as North Carolina, but the quality of their elementary and secondary education systems is still a serious liability.

Ohio has a much better qualified labor force than most benchmark states, but clearly its urban school systems are deficient. Many of its suburban systems, and some of its rural systems, are very good, but the suburban systems send most of their students to college and the rural systems are too small to make up for deficiencies in center city systems. Thus, Ohio is in a better labor force quality position today, but it is no better off than its southern competitors in finding long term solutions to future labor force quality, and not as good at providing continuing skills training for sub-professionals whose occupations demand periodic upgrading.

The most critical of these business climate liabilities is the status of labor force preparedness in Ohio. In GSO's 1997 survey of local economic development organizations, the 20 Ohio participants rated worker skills and availability the most serious barriers to realizing their communities' development objectives — 85% said that worker skills is a critical concern and 75% rated worker availability a critical concern. About half said that both concerns are getting worse. If the State of Ohio is to help its communities compete better for new and expanded business investments, it should concentrate its efforts on improving its elementary and secondary education systems to produce graduates better prepared for the world of work. There are many very high quality systems in Ohio, but most are found in suburban communities and most of their graduates go on to college. Urban school systems are the prime source of entry level workers for sub-professional jobs in factories and offices. These systems are not meeting the needs of their communities. As a result, Ohio suffers from a serious deficit of employable semi-skilled workers.

Since an improved network of elementary and secondary education systems is a long term undertaking, Ohio must also upgrade its capacity to provide skills training for workers already in the labor force who lack the ability to compete effectively for jobs in skilled occupations. This means increased funding and stronger training providers. It is time to make a much bigger investment in Ohio's future — its human resources.

Three-Dimensional Model of State Economic Competitiveness

Three dimensions make up the economic competitiveness assessment:

1. Industry competitiveness
2. Geographic area competitiveness
3. Development resource competitiveness

The State of Ohio's economic development strategy must reflect all three dimensions to improve Ohio's competitive position. These are discussed below.

Industry Competitiveness

First, a state's major industries change in their competitive strength and economic importance over time. These changes occur as a result of changes in industry structure and growth performance, national and international market developments, major government policy adjustments, and a myriad of other factors. Ohio is still a very strong manufacturing state, but its advantages for certain types of steel, automotive, machine tool, and other basic industry production has declined relative to other locations in the United States and abroad. Meanwhile, the state's competitive advantages for advanced sector and travel and tourism industry growth has improved markedly. Location factors, like labor skills, wage rates, and tax costs have some bearing on how well Ohio-based industries perform. But other factors, including company-specific factors, are determining factors in how well these industries grow.

Manufacturing Sector Performance[33]

Ohio's manufacturing sector currently represents 27.2% of Ohio GSP and just under 20% of total statewide employment. Historically, manufacturing has served as Ohio's chief economic growth engine. Manufacturing is expected to remain as a vitally important industry to the Ohio economy in the next decade, but its importance may decline slightly, as services and other emerging industries grow in importance.

Manufacturing Employment Trends

Ohio manufacturing job growth peaked at 1,122,580 in 1989, nearly a decade ago, and then tumbled to 1,049,890 in 1993, as a result of the recession. Since 1993, state manufacturing jobs climbed to 1,102,360 in 1995, and then declined in 1996 and 1997. Since 1986, Ohio manufacturing jobs fell by 17,220, or 1.6% over the period.

Ohio manufacturing jobs are expected to increase from 1,092,550 this year to 1,108,260 in 2007. This 15,710 gain will almost wipe out the loss seen in the previous period.

A combination of factors has influenced the growth of jobs in Ohio's manufacturing sector in the past decade, and these factors will continue to shape manufacturing job growth in the decade ahead. First, industry restructuring and globalization have combined to lower overall job growth in the sector. Manufacturing at the national level is growing more slowing than other major economic sectors. While most of Ohio's production job loss occurred in the late 1970s and the early 1980s, some losses continue as corporate merger and acquisition activity runs its course in a number of Ohio's major manufacturing employers.

A second major factor affecting manufacturing employment growth is the steady stream of capital investments made by Ohio companies to raise productivity and quality levels. These investments, while securing the presence of these companies in Ohio, have contributed to employment losses.

Market shifts to the South, West, and off-shore have demanded that Ohio manufacturers put down new production roots in these faster growing markets. Southern states captured

this growth during the 1970s and early 1980s, and Western states have set the pace since the mid-1980s.

Finally, Ohio's durable goods manufacturers have experienced slower job growth over the past two decades. This long-term trend reflects a weakness stemming from the composition of Ohio's economy. Typically, this is called 'industry mix' by economic researchers.

Geographic Area Competitiveness

Second, geographic locations (regions, counties, and communities) within a state also change in their competitiveness as a result of various local and external factors. As a case in point, consider Youngstown, which was once a very competitive steel-making center. The area has steadily lost competitive advantage over time due to changes in production technology, competition, and market demand. Cleveland had weak competitive advantages for tourism development until recent years. Since 1990, the Cleveland area has become a more competitive visitor destination, in part due to a sustained and coordinated investment strategy by the area's public and private sectors.

Development Resource Competitiveness

Third, a state's basic development resources, such as its highway system, air service facilities, labor force, utility services, and real estate change over time. The air service industry has experienced major structural changes in the past decade. Established airports, like those found in Cleveland and a number of other Ohio cities, have experienced serious competitive threats as passenger traffic has consolidated into surrounding major national hub airports, such as Chicago O'Hare Airport and others. The industrial real estate supply found in older industrial cities, like Cleveland, Cincinnati, Dayton, and Toledo, has declined in competitiveness, as newer state-of-the-art industrial and business office parks have been built in suburban and 'edge' city locations.

State Fiscal Capacity as Development Advantage

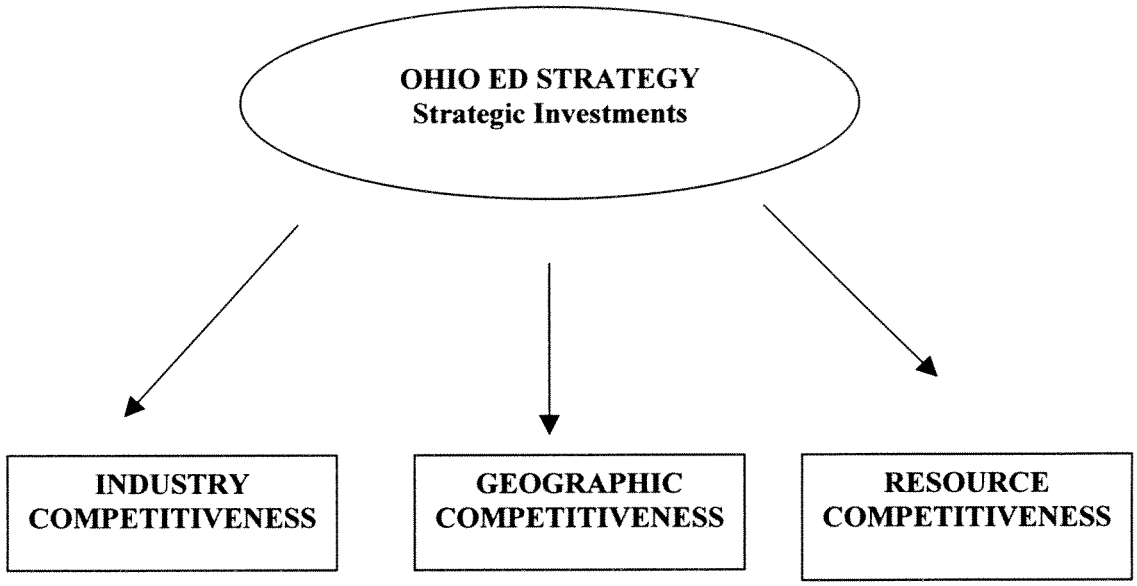
Government fiscal capacity to support future growth is a crucial dimension of state economic competitiveness. The State of Ohio is going into its next biennial budget period with a significant surplus. Generally, the 1990s economic boom has treated state governments favorably across the nation. While there are many demands on the state treasury, and more are expected in the future, state government's current healthy position is a competitive advantage for future economic growth and development.

Taxes fell in 35 states for a total reduction of $6.8 billion, according to the National Council of State Legislatures (NCSL). Ohio reduced taxes by 4.3% of its FY 1997 level, which is the seventh biggest decline among the all states. Twenty-three states made deposits to their rainy day funds or other reserve funds; 19 states, including Ohio, specifically reduced taxes to address excess revenues; 16 states targeted certain programs for extra funding increases; and 16 states funneled surplus revenues into capital projects.

Linking Investment to Competitive Advantage Building

One of the major challenges in economic development is successfully linking public and private investment dollars to community and statewide priorities. The most beneficial investments are those that build new competitive advantage for industries, people, and places to compete in the context of our technologically advanced global economy. The State of Ohio must embrace all three competitive dimensions referred to above--industry, geography, and development resources, as Figure 5 below indicates.

Figure 5
Ohio's Strategy to Build Competitive Advantage



CHAPTER 5 - TAX AND INCENTIVE MODEL ANALYSIS OF OHIO ECONOMIC DEVELOPMENT PROGRAMS

Purpose

This chapter presents the major findings of the Tax and Incentive Model (TAIM) Analysis of Ohio economic development programs. The TAIM model, developed by Peter Fisher and Alan Peters from the University of Iowa, is one the best hypothetical firm analysis models available today. The model was chosen for use in the OEDS project because of its ability to provide independent testing of the generosity of incentive programs to the firms receiving these benefits. Moreover, the credibility of Alan Peters and Peter Fisher was a key determinant.

Credits

This chapter is based upon research conducted by Alan Peters and Peter Fisher on Ohio's economic development programs. They used their TAIM model to analyze 6 of the 12 state programs included in the study scope: 1) Machinery and Equipment Tax Credit Program (M&E); 2) Job Creation Tax Credit Authority Program (JCTC); 3) Ohio 166 Direct Loan Program; 4) Roadwork Development Grant Program; 5) Ohio Industrial Jobs Training Program; and 6) 412 Business Development Grant Program. Because of data limitations, a TAIM analysis was not conducted on the other four evaluated programs.

Methodology

The Tax and Incentive Model, is a representative firm model that allows the researcher to simulate the impact of different types and amounts of incentives on the internal rate of return of a private firm using the incentive programs. Full details of this model are contained in various reports produced for this study by Peters and Fisher, and therefore we shall not, therefore, elaborate on how the model works here.

The researchers collected current tax rate data on all locations and states to be modeled. This data was loaded into the program and applied to a set of hypothetical development project scenarios and across a set of 29 industry groups. The results of the analysis provided a perspective of how competitively Ohio ranked against the comparison states used in this study (the five surrounding border states plus North Carolina, South Carolina, Tennessee, Texas, and Virginia).

A variety of working and final reports were produced in this part of the analysis that have formed a major basis for the study team's assessment of Ohio's economic development programs.

Summary of Major TAIM Analysis Findings and Conclusions

The primary purpose of this analysis was to determine how Ohio's main incentive programs affect Ohio's competitive position for new business investment. The TAIM

model calculates the effective state-federal tax rate on income from a new plant (of a size typical of each of the 29 manufacturing sectors modeled) for new plant locations in Ohio and each of the 10 competitor states. The model also calculates the after-tax rate of return on the new plant investment.

This research suggests that the Ohio state and local direct business tax burden on new investment is about average, compared to the 10 competing states, when one includes tax incentives generally available in those states (that is, excluding enterprise zone and other targeted or discretionary incentives). Effective tax rates are lower in Kentucky, North Carolina, South Carolina, and West Virginia, comparable in Michigan, Tennessee and Virginia, but higher in Indiana, Pennsylvania, and Texas. Ohio's enterprise zone program, however, provides very powerful tax relief; only Michigan's new renaissance zone program produces lower tax rates when comparing enterprise zone locations in the 11 states.

The firms that are most tax-competitive in Ohio (with the M&E credit and JCTC included) tend to be ones with relatively lower inventories as a percent of total assets. The most competitive sectors also tend to pay higher wages than the least competitive industries, and include many of the largest manufacturing sectors, in terms of their share of Ohio employment (automobiles, primary metal industries, printing, and plastics). The two tax credits played an important part in making these sectors relatively competitive. Ohio's tax and incentive system tends to be more favorable to traditional basic industry such as food production, primary metal industries, and rubber and plastics. Many of the high-tech sectors—computer and office equipment, various electric and electronic equipment industries, and instruments—tend to be the least competitive in terms of taxes.

If the state wishes to do more to encourage the growth of the high tech sectors, our research indicates that the M&E credit and the JCTC credit are not effective tools, and that a reduction in the inventory tax would be more important.

The machinery and equipment tax credit and the job creation tax credit were analyzed in the context of the state and local tax systems operating in Ohio and the competing states, and in the context of other types of tax incentives offered. The model results indicate the effective state-federal tax rate on income from a new plant (of a size typical of each of the 29 manufacturing sectors, as shown in Table 15 below, assuming that labor, energy, transportation and other costs are the same in all eleven states, and that only taxes and tax incentives vary.[34]

Differences in overall tax rates measure the effect of each state's tax and incentive system on the firm's bottom line. The effective tax rates are equal to the total taxes attributable to the new plant (the sum of federal corporate income taxes and state/local corporate income, sales, and property taxes), divided by the before-tax income generated by the plant. The effective tax rate includes income taxes paid to other states and the federal government in order to capture the important interactions among income taxes brought about by the deductibility of state and local taxes. That is, since state and local taxes can be deducted from taxable income for federal purposes, any *reduction* in state or local tax

costs *raises* federal taxable income and hence federal taxes. Part of the state or local tax cut ends up in the federal treasury rather than in the firm's bank account.

The tax rates were calculated for up to three kinds of locations (in terms of incentives available) in each of the 11 states: (1) a site where the plant would receive only those tax incentives generally available throughout the state; (2) a site in an enterprise zone, where the plant receives the generally available incentives plus state and local enterprise zone incentives; and (3) a site (or scenario) where the plant would receive the generally available incentives plus non-enterprise-zone incentives that are either geographically targeted (such as the 13.5% machinery and equipment credit in Ohio) or are available only on a discretionary basis (such as Michigan's MEGA credit). Table 15 shows the incentives modeled for each kind of location in each state.

Table 15
Tax Incentives and Overall Tax Rate Rankings for 25 Sites Modeled
(Most competitive site is ranked 1)

	State	Generally Available Incentives	Enterprise Zone Incentives	Other Incentives	Rank
1	Indiana	None	No		25
2	Indiana	None	Yes		20
3	Kentucky	ITC & Unemployment credit	No		9
4	Kentucky	ITC & Unemployment credit	Yes		6
5	Kentucky	ITC & Unemployment credit	No	KREDA	3
6	Michigan	None	No		15
7	Michigan	None	Yes		1
8	Michigan	None	No	MEGA credits	7
9	North Carolina	M&E Credit, Job Credit, Training Credit, Business Credit	NA		12
10	Ohio	No state tax incentives	No		24
11	Ohio	No state tax incentives	Yes**		11
12	Ohio	7.5% M&E credit; JCTC	No		16
13	Ohio	7.5% M&E credit; JCTC	Yes**		5
14	Ohio	JCTC	No	13.5% M&E Credit	14
15	Pennsylvania	Job Credit; Employment Incentive Credit (EIC)	No		23
16	Penna.	Job Credit; EIC	Yes		21
17	South Carolina*	ITC; Job Credits; Withholding Tax Credit	NA		4
18	South Carolina	ITC; Job Credits; Withholding Tax Credit	NA	Least Developed County Incentives	2
19	Tennessee	Indus. Mach. Credit; Jobs Credit	NA		19
20	Tennessee	Machinery Credit; Jobs Credit	NA	Distressed County	18

Table 15 Continued
Tax Incentives and Overall Tax Rate Rankings for 25 Sites Modeled
(Most competitive site is ranked 1)

	State	Generally Available Incentives	Enterprise Zone Incentives	Other Incentives	Rank
21	Texas	None	No		22
22	Texas	None	Yes		13
23	Virginia	Major Business Facility Job Credit	No		17
24	Virginia	Major Business Facility Job Credit	Yes		8
25	West Virginia	Business Investment & Jobs Credit; Industrial Expansion Credit	NA		10

NOTE: ITC = Investment Tax Credit; JCTC = Job Creation Tax Credit; M&E = machinery and equipment; KREDA = Kentucky Rural Economic Development Authority; MEGA = Michigan Economic Growth Authority. Rank is based on the weighted average overall effective tax rate on new plant income across 29 sectors, where the weights represent the sector's share of 1997 Ohio manufacturing employment.
*Assumes firm is located in one of the most developed counties (with the lowest incentives).
**Local enterprise zone abatements included, but no state enterprise zone incentives, which are rarely used.

Peters and Fisher analyzed four loan and grant programs (which are discretionary incentives): the 166 business loan program, the 412 Business Development Account, the 629 Roadwork Account and the OITP customized training program. The researchers found that the worth of the Ohio subsidies is not affected by the investment's location in or out of an enterprise zone. Moreover, the subsidies do not have strong sectoral effects: a grant of set size is likely to have much the same effect in one sector as in another. However, Ohio discretionary incentives are a relatively small part of the state's total incentive arsenal. The value of discretionary incentives that was simulated was considerably less than tax incentives.

While discretionary incentives remain a valuable tool of economic development because they are flexible and thus can be tailored to the needs of individual investments, Ohio's basic tax structure and its tax and enterprise zone incentives are much more important in determining the state's overall competitiveness to new investment. To the extent that the state is concerned about improving its economic development position using traditional economic development methods, the main focus should be on reforming the state's overall business tax structure and its tax incentives.

Discretionary incentives, like all incentives, have important and often unnoticed side effects. In particular, a fairly large percentage of each incentive dollar provided to a firm could potentially end up in the federal treasury because the incentive increases the firm's federal taxable income and hence federal taxes. This issue suggests that Ohio should invest in sophisticated financial simulation tools able to indicate for each subsidy, how much the firm will benefit from the subsidy and how much will be transferred to other taxing authorities. To the extent that Ohio is able to provide incentives that minimize capture by other taxing authorities, it will be able to maximize the cost-effectiveness of its economic development incentives.

TAIM research on Ohio's incentives, combined with the TAIM study of the enterprise zone program (which is discussed in Chapter 6), leads to the following major conclusion: State policy should focus on an even-handed, across-the-board approach to making the state's tax system reasonably competitive. The "sore thumb" in Ohio's tax system, at least for manufacturing and wholesale firms, appears to be the property tax burden on inventories. If this tax, and perhaps the property tax on machinery and equipment as well, were reduced or phased out, all locations in the state would be much more competitive. At the same time, such tax reductions benefit equally existing plant and equipment, plant expansions on site, and plant relocations. This across-the-board approach avoids the problem with all incentives that are targeted at new investment--such incentives afford new greenfield sites significant advantages over expansions on established sites.

One possibility is that a statewide reduction in property taxes on manufacturers would reduce the costs of older firms in older areas (including those presently located in distressed urban enterprise zones) and would make it much easier for such locations to remain competitive with new rural or suburban sites, many of which now have enterprise zones and are able to offer much lower property taxes. Such statewide reductions would lower the cost of capital everywhere, and would reduce or perhaps eliminate the need for the two major capital-cost incentives now in use: the M&E credit and the zone abatements.

As for state enterprise zone policy, the State of Ohio needs to decide first what it wants the program to do. One choice is to use the program to encourage job formation in distressed areas, which was the original intent of the program in 1982. If so, property tax abatements are not the best instrument. Economic logic would suggest that abatements lower the price of capital and, at least for some firms taking advantage of abatements, will result in some substitution of capital for labor. One approach would be to phase out the non-distressed zones and provide a more attractive state job creation credit for the remaining distressed zones. There are others that may also be considered.

Strategic Issues

Several strategic issues are raised by the TAIM analysis of Ohio economic development programs. In assessing the effects of taxes and loan/grant programs on a state's competitiveness for business investment, it is important to understand how firms make location and investment decisions. Important locational factors are access to markets for inputs and for products, labor costs and labor productivity, energy costs, and transportation costs. These factors are largely determined by private markets and by the distribution of resources and population. State and local governments will experience great difficulty in changing the inherent locational advantages of a place in a major way.

Having said this, for at least some firms there will be two or more locations (within Ohio, or in Ohio and another state or two) that offer essentially similar overall advantages. In such instances, taxes and other costs subject to government policy can be the decisive factor. This is most likely to be the case within a metropolitan area, where differences in labor, energy and transportation costs are minimal, and access to markets is essentially the same.

State and local economic development policy traditionally has focused on the relatively minor costs that government policy can directly influence: the tax burden, the costs of financing investment (through government loan and grant programs), and the costs of local infrastructure. For example, it is hoped that by lowering by $1 million the firm's cost of building or expanding a plant in place A, then that firm will build it in place A instead of place B. The $1 million cost reduction may end up being the decisive factor in only a minority of instances. However, it will have been unnecessary in some cases (place A already being the best location), or insufficient in others (place B being more profitable regardless). But for those cases where it does tip the balance in favor of A, policy makers must be alert to the unintended consequences. It makes a difference how that $1 million cost reduction takes place. And it makes a difference what sort of places A and B are.

Most public policies that lower the costs of doing business lower particular *kinds* of costs (the exception would be an unrestricted grant). For example, abatement of the property tax on new machinery and equipment (as opposed to replacement equipment) lowers the cost of owning machinery associated with a new or expanded plant. It does not lower other costs of production, nor does it lower the costs of owning existing machinery and equipment. A credit of $2,000 per new job created, on the other hand, lowers the cost of labor associated with a new or expanded plant. While the total benefit to the firm might be $1 million in both instances, policy makers should not be indifferent as to which approach is used to make a location more competitive, for these incentives will probably produce different effects.

Economists refer to two different kinds of effects brought about by changes in the costs of inputs: output effects and substitution effects. The output effect is simply an expansion of production (and hence increased purchases of *all* inputs) brought about by a reduction in overall costs, regardless of the source of the cost savings. The substitution effect, on the other hand, results from the change in *relative prices*: if machinery is made cheaper relative to labor, the firm has an incentive to substitute machinery for labor. If investment incentives make new capital cheaper to own than old capital, the firm has an incentive to substitute new plants (perhaps in new locations) for old plants. It is common to focus only on the output effects of tax changes and development incentives and to assume that $1 million in benefit produces the same effects regardless of how we provide that benefit; this is a mistake.

These output and substitution effects will occur simultaneously. The M&E credit, for example, by making industrial machinery cheaper, may induce some firms to locate in Ohio that otherwise would not have, and others may invest more, and hire more workers, because their costs are reduced. At the same time, some of these investing firms will have a choice of production technologies and may now find it profitable to substitute a more capital-intensive technology for the one previously in use, actually *reducing* their demand for labor in the process.

The point of this discussion is that incentive programs should be evaluated along several dimensions:

1. How they affect the competitive position of Ohio versus other states.

2. How they affect the competitive position of certain kinds of places in Ohio versus other kinds of places.

3. How they affect the relative attractiveness of existing capital versus new capital and hence older industrial locations versus greenfield sites.

4. How they affect the incentives for firms to adopt more or less labor-intensive technologies.

5. How they affect certain kinds of firms or industrial sectors versus others.

If two kinds of incentives provide the same boost to Ohio's competitive position, then we should prefer the one that has desirable consequences along the other dimensions. If the primary goal is to expand employment in relatively high-wage sectors, we should prefer incentives that do not encourage substitution of capital for labor and that benefit higher wage industries. If the primary goal is to create jobs in places where unemployment is highest, we should choose incentives clearly targeted at such places and avoid incentives that make the older capital that is prevalent in such areas prematurely obsolete by reducing the costs of new capital relative to old.

There are other kinds of investment decisions that are at least as important to the economic development process: the decision to start a new business or the decision to "invest in human capital" by furthering one's education or training. Incentive policies of the sort discussed here, and traditional economic development policy more generally, are not directed at new business formation and are generally ill-suited to encouraging entrepreneurship. Furthermore, tax breaks and loan and grant programs may possibly have negative direct fiscal effects, undercutting the ability of the public sector to finance education.[35]

Effects of Taxes and Incentives on the Competitive Position of Ohio Localities

The TAIM research suggests that Ohio's state and local direct business tax burden on new investment is about average, compared to the 10 competing states, when one includes tax incentives generally available in those states (that is, excluding enterprise zone and other targeted or discretionary incentives). Effective tax rates are lower in Kentucky, North Carolina, South Carolina, and West Virginia; comparable in Michigan, Tennessee, and Virginia; but higher in Indiana, Pennsylvania, and Texas.

Ohio's enterprise zone program, as described earlier provides fairly powerful tax relief. Only Michigan's new renaissance zone program produces lower tax rates when comparing enterprise zone locations in the 11 states. The property tax on inventories in Ohio puts firms at a disadvantage here. Only two of the 10 competitor states tax

inventories fully, and five do not tax them at all. This disadvantage is overcome for enterprise zones by the property tax abatements, but it remains a disadvantage elsewhere in the state.

It is clear that the enterprise zone program provides an important competitive advantage to designated areas of the state. Non-designated areas are left, at least from a tax point of view, less competitive. Since so much of the Ohio is covered by enterprise zones, it appears that the program can no longer really be viewed as an enterprise zone program (in the sense of a set of incentives targeted at distressed areas). Rather it is viewed as a patchwork attempt to offset competitive disadvantages inherent in the local tax system. A more satisfactory approach to relieving the property tax burden statewide would be to phase out the personal property tax on inventories or to provide state credits to businesses everywhere to offset all or a portion of the tax.

The fact that so much of the state is covered by a local enterprise zone eliminates much of the competitive advantage that the state might have wished to confer on distressed areas. Moreover, the focus of state policy on investment incentives (e.g., the M&E credit and property tax abatements) lowers the cost of new versus old capital, which actually disadvantages the older distressed areas. An across-the-board reduction in property taxes would not have that effect, yet would still lower the price of capital—both new and old.

Industry Sector Effects of Ohio Taxes and Incentives

The firms that are most tax-competitive in Ohio (with the M&E credit and JCTC included) tend to be ones with relatively lower inventories, as a percent of total assets. The most competitive sectors also tend to pay higher wages than the least competitive industries, and include many of the largest manufacturing sectors, in terms of their share of Ohio employment (automobiles, primary metal industries, printing, and plastics). The tax credits played an important part in making these sectors relatively competitive. Ohio's tax and incentive system tends to be more favorable to traditional basic industry such as food production, primary metal industries, and rubber and plastics. Many of the high-tech sectors—computer and office equipment, various electric and electronic equipment industries, instruments—tend to be the least competitive in terms of taxes.

Tax and incentive systems inevitably act as a kind of industrial policy, favoring some kinds of sectors over others simply because of the differing asset composition of industries, differing capital intensities (plant and equipment per worker), and other factors. If the state wishes to do more to encourage the growth of the high tech sectors, our research indicates that the M&E credit and the jobs credit are not effective tools, and that a reduction in the inventory tax would be more important.

The property tax abatements available in enterprise zones have less clear sectoral effects because they benefit firms with high inventory levels as well as firms with large amounts of capital equipment in their asset structure, and these tend to be different kinds of firms. What is clear is that, since the state zone incentives are little used, enterprise zones reduce business costs exclusively by lowering the cost of capital rather than labor. To the extent that enterprise zones are to be viewed as mechanisms to encourage the expansion

of employment opportunities in depressed or declining areas, property tax abatements are not the best instrument.

Economic logic would suggest that abatements lower the price of capital and, at least for some firms taking advantage of abatements, will result in some substitution of capital for labor. In practical terms, this means that at the margin, abatements, like all capital subsidies, may result in some overall loss of jobs as the production process is mechanized or automated. The extent to which this is true is obviously dependent on the size of the subsidy. Less obviously, it is also dependent on the extent to which the subsidy of capital results in a higher level of overall investment so that there is some increase in employment despite the greater capital intensity of production.

(The reader is referred to the in-depth technical reports produced using the TAIM analysis model. Later in this report, the results of TAIM analysis of tax policy alternatives are presented.)

SECTION III-A: STATE-AUTHORIZED/LOCALLY-RUN PROGRAMS

CHAPTER 6 - OHIO ENTERPRISE ZONE PROGRAM ANALYSIS

Purpose

This section discusses the major findings, conclusions, and recommendations on Ohio's Enterprise Zone Program, one of Ohio's largest and most utilized business incentive programs.

Credits

A series of detailed reports form the basis for the results summarized in this section of the Final Report:

1. *Fiscal Impact Analysis Report on the Ohio Enterprise Zone Program*, by Kevin O'Brien, Lee Walker, and Patricia Brynes.

2. *TAIM Analysis of the Ohio Enterprise Zone Program*, by Peter Fisher and Alan Peters.

3. *Ohio Enterprise Zone Program Analysis: Final Program Report*, Donald T. Iannone.

The reader is encouraged to consult these three reports for detailed findings of our investigation of this program. Space limitations prevent us from including more detail in this Overall Study Final Report.

Three central questions are addressed by the Enterprise Zone Program analysis. First, how well has the Enterprise Zone Program performed? Second, what are the identifiable costs and benefits associated with this performance? Third, what actions are recommended to strengthen program performance in the future? The performance question, in large part, relates to the progress made by the program in achieving its defined statewide and local economic development goals. The fiscal impact question relates to how cost-effective the program has been in making this progress. Finally, the issue of recommendations relates to what conscious changes should be made to the program's future mission, goals, structure, management, and strategy.

Methodology

The study team's analysis of the Ohio Enterprise Zone Program used several carefully selected research procedures. These procedures are best understood by looking at the six technical reports produced on the Ohio Enterprise Zone Program's history, operations, and performance. While all analytic inputs are important to the study results, three were given most attention: the TAIM model analysis, the state and local fiscal impact analysis,

and the CUED best practices' survey. However, we did consider all inputs, including Advisory Committee inputs and ideas, as we drew our final conclusions.

The primary research inputs used in the Enterprise Zone Program were:

1. **Economic Development Literature Review**: Dr. Terry F. Buss, an economics professor at Suffolk University in Boston, conducted an exhaustive analysis of the existing research literature on enterprise zones and economic development incentive programs in general. The literature review allowed the researchers to understand and build upon earlier enterprise zone program analyses.

2. **State Incentive Best Practices Analysis**: The National Council for Urban Economic Development (NCUED) in Washington, DC, surveyed Ohio and the other eleven comparison states about their use of performance-based economic development incentives, including their practices relative to enterprise zones. This best practices analysis was led by Dr. Shari Garmese, NCUED's Research Director. The best practices assessment provided valuable understanding into how competitor states currently use their enterprise zone programs, and other incentives. To the extent possible, it provided insights into future directions in using these programs.

3. **Ohio Enterprise Zone Case Studies and Zone Manager Survey**: The CSU Urban Center prepared case studies of five local enterprise zones to understand how the statewide program was actually implemented and operated on a local basis. The Urban Center also surveyed 126 of the 180 enterprise zone managers in Ohio communities about their views of state program operation and performance. In several cases, zone managers are responsible for more than one enterprise zone. Seventy percent of the zone managers responded to the CSU survey. CSU Researchers Kirstin Toth and Jacqueline Holland completed this survey. Individual zone case studies were prepared by five CSU Urban Center staff members. The survey and case studies provided an "close-up" perspective of how these programs operate in a local context, how different community stakeholders view these zones, and what state program improvements local officials should be considered in the future.

4. **Analysis of Employment and Payroll Performance of Five Ohio Zones**: The job and payroll performance of firms in five zones was examined and compared to job and payroll data reported by these same firms to the State of Ohio and the US Department of Labor through the Employment Security (ES) 202 reporting requirement. This study was performed by Dr. Jocelyn Fagan, an economist working for the CSU Urban Center. This analysis provided an independent frame of reference for judging whether firms receiving enterprise zone incentives produce promised job and payroll benefits.

5. **Hypothetical Firm Modeling of Ohio Enterprise Zone Incentives**: Drs. Peter Fisher and Alan Peters from the University of Iowa used their Tax and Incentive Analysis Model (TAIM) to examine the internal rates of return realized by firms

using Ohio and selected other state enterprise zones. The model provides a way to simulate firms' internal rate of return and the estimated "generosity" of available enterprise zone incentives. The TAIM model is considered to be one of the best of its type nationally, which is why it has been included in our research methodology.

6. **State and Local Fiscal Impact Analysis of Ohio Enterprise Zone Program**: There are two components to the fiscal impact analysis, which sought to measure the total direct state and local costs and benefits of the Enterprise Zone Program. Kevin O'Brien and a research team at CSU analyzed the fiscal impact of the program on local communities and Ohio regions. Dr. Patty Byrne and Lee Walker in Ohio State University's Public Administration Program assisted with the analysis of the fiscal impact of the program on the state treasury.

General Research Caveat

No study can provide complete knowledge about the costs, benefits, and value of a public policy program. The economic development research literature indicates that the actual number of detailed incentive program evaluation studies completed to date is quite limited.[36] Moreover, the evaluation results from these earlier studies, even for the same programs, appear inconsistent. In part, these inconsistencies result from different research goals, research questions investigated, data and methods, time availability, and research budget dollars.

Data problems were considerable in our analysis of the Ohio Enterprise Zone Program. We tried our best to overcome these common research problems encountered in earlier studies. Yet, data problems hampered our ability to study trends over a long time period. This explains why our analysis gives most weight to the 1994-1996 time period, where data quality is considerably better due to more demanding program monitoring rules enacted by the Ohio Legislature in 1994.

No apologies are made for data and other problems encountered as these problems would confront any researcher. We would encourage people instead to see our work as an excellent starting point for the creation of an ongoing process to monitor, analysis, and improve the performance of Ohio's economic development programs in the future.

Since this is the first serious in-depth attempt at evaluating Ohio's Enterprise Zone Program, our knowledge is even more modest, especially in attempting to measure complex cause and effect relationships. We would fully expect that future evaluation studies, building upon this first study's results, will provide more definitive insights into the costs, benefits, and effects of the program on local economies, communities, and state and local government treasuries. In this sense, the study team is hopeful that this study will provide an essential benchmark for future studies. The study team is, however, confident that it did the best possible job in analyzing Ohio's Enterprise Zone Program, given the constraints identified above.

Program Overview

Ohio created its Enterprise Zone Program in 1982, about the same time as its neighboring states. As of December 1996, Ohio had 289 enterprise zones, found in 86 of Ohio's 88 counties. There were 113 zones located in rural townships in Ohio counties, suggesting that the rural zone component of the program has grown dramatically since it was authorized. The remainder of the zones is distributed as follows: 18 large zones in central cities; 41 in inner-ring suburbs, 24 in outer-ring suburbs, and 32 in consolidated rural counties. Four zones were added after December 1996: 1 in a central city, 2 in inner-ring suburbs, and 1 in a rural community. The total number in Ohio as of June 1997 was 293 zones.

Thirty-four states currently operate these programs, which exhibit striking differences and similarities in their structure and functions. Needless to say, the Federal Enterprise Zone Program never emerged as envisioned in the Reagan Administration, but many states plunged ahead with state level programs, convinced that these programs could help cope with the sweeping wave of economic change experienced during the tumultuous early 1980s. The Clinton Administration's current Empowerment Zone and Enterprise Communities Programs embodies the spirit and some of the tools considered during the 1980s federal effort.

These state enterprise zone initiatives were highly consistent with the states' heightened activism related to economic development during the 1980s.[37] In large part, this activism gave rise to the current generation of economic development programs found in most states. State technology initiatives were launched during the same era to assist businesses, industries, and workers to cope with the new technological revolution shaking the roots of American industry.

The Ohio Enterprise Zone Program's original intent, like its counterparts elsewhere, was to stimulate economic development in distressed urban communities troubled by long-term problems of economic decline. This original intent, however, is quite different from the now commonly cited need to use enterprise zone incentives to reduce the costs of Ohio's tangible personal property tax. Subsequent legislation in 1987, 1989, 1991, and 1994 served to consciously modify the intent and application of the program. These legislative changes allowed rural communities to utilize the program, added provisions requiring school district negotiations related to foregone school funding revenue, and tightened the monitoring and reporting rules governing the program. A fundamental question addressed in this study is whether the Ohio Enterprise Zone Program has lived up to its original and modified intents over the past fifteen years. This policy intent question is central to an accurate portrayal of the costs, benefits and overall value of Ohio.

Current legislative policies governing the program call for better monitoring of the program at the state and local levels. This study attempts to quantify the fiscal aspects of the program at this point in time. This task is complicated, however, by the fairly minimal attention to fiscal monitoring of program effects to date. The primary concern of both

local zone managers and state government has been whether enterprise zones create new and retain existing jobs. This should come as no surprise to any of us, since the "jobs yardstick" remains the principal one used by most states and communities across the country. Fiscal accountability is a much more recent concern. In fact, fiscal performance measures are not currently specified by current governing state laws, regulations and guidelines.

Major Findings

The results of our research on the Enterprise Zone Program are presented in two parts. The first part discusses the conclusions of earlier enterprise zone assessment studies done elsewhere in the country. The second part describes the results of the CSU research team's analysis.

Earlier National Research Findings on Enterprise Zone Performance

The Ohio Enterprise Zone Program has not been the subject of past systematic research. A few other Ohio researchers have examined selected issues related to the program. Four research questions have received the greatest attention from earlier academic researchers with respect to enterprise zones across the country[38]:

1. Do enterprise zones stimulate economic growth or impact?
2. Would economic growth have occurred anyway in the absence of enterprise zone incentives?
3. Do enterprise zones exacerbate the economic war among states and communities?
4. How well do enterprise zone incentives work?

Overall, the vast majority of the academic research literature on economic development incentives has characterized the impact of these programs in a negative way. Research on these programs is very difficult in light of data and other technical problems. In preparation for this study, a careful review of the existing literature was conducted. Although the study team is well aware of the limitations of the earlier research, reviews of previous studies were used to make the Ohio study approach better than earlier efforts.

Do Enterprise Zones Stimulate Economic Growth or Impact?

In general, the literature is divided among studies finding major effects associated with growth, and those finding negative or inconclusive results. Thus far, negative and inconclusive study findings are more numerous than those finding positive correlations. Findings showing an association between taxes and economic growth tend to be disparate and, in general, give little guidance to policy makers. Many studies of even the same zones come to opposite conclusions about zone impacts. Some of the studies finding associations between taxes and economic growth are believed to suffer from data source problems, time period selection, variable selection, and research methods. Methodological flaws limit the ability to draw heavily from earlier studies as a foundation for our study in Ohio. The Ohio study attempts to reduce some of these

problems by using local assessed valuation data as a research variable for judging zone performance.

Would Economic Growth Have Occurred Anyway Without an Enterprise Zone?
The literature, once again, is divided on the issue of whether investment would have occurred in the absence of a zone. Many studies suggest that the zones produce little employment that would not have occurred in the absence of an enterprise zone. Self-reporting data problems are believed to account for many of the research problems witnessed in earlier studies focused on this question. Surveys collecting data from zone managers, firms using zone incentives and other parties have not proven to be highly reliable indicators of impacts when used as the sole research method. It is for this reason that the Ohio study has coupled different research methods to overcome these potential problems.

Do Enterprise Zones Fuel Inter-Jurisdictional Tax Competition?
Although not the primary intent of enterprise zone programs, zones do offer incentives to relocating firms. Most of the documented competition around zones appears to be of an intra-regional nature, suggesting that these incentives encourage firms to move from one community to another within the region. This coincides with the finding in several research studies that taxes matter most in a business location decision when the locational choices have been narrowed down to the sub-state regional level. While the State of Ohio has taken measures to address this problem, it is still seen by many local officials as a notable problem with the program. The research indicates that economically disadvantaged communities tend to offer more generous incentives than other types of communities.

How Well Do Enterprise Zone Incentives Work?
Three sets of findings are common in the literature to date: 1) targeted populations, namely minorities and disadvantaged individuals do not benefit significantly from enterprise zones; 2) enterprise zone incentives are seen as ineffective because too many zones exist and, therefore, they tend to defeat their intended purpose; and 3) incentives have contradictory impacts on zones, especially where an expectation exists that the zone will reduce poverty and unemployment in the zone area.

In general, existing research on enterprise zones suggests that these programs have not produced substantial benefits to communities, as judged by traditional economic development measures such as new job creation. Existing research suggests that future enterprise zone research should: 1) carefully select appropriate control groups for future studies; 2) use several economic performance measures and examine trends over the long term; 3) use net change indicators to judge impact; 4) use cost-benefit analysis as a first step, but also conduct an opportunity cost analysis; 5) attempt to research externalities and spillover effects; 6) examine zone impacts on business profitability levels; and 7) examine zone impacts on particular industry sectors. To the extent possible, the Ohio study attempts to incorporate many of these recommendations. Data limitations reduce the ability to include some these recommendations at this time.

State Incentive Best Practices Survey Results

Researchers from the National Council for Urban Economic Development (NCUED) interviewed officials from the twelve states included in the study. Their main concern was to understand how states were using performance-based monitoring and measurement tools to guide their existing economic development incentives. The report is rich in useful insights and findings about other states' incentive management practices. It also characterizes some of the steps that states plan to take along the future path to make their incentives more accountable and performance-based.

The survey found that states tend to develop their own incentive programs individually, although many common programs are found across the states. Evidence of states copying and building upon other states' programs is very common. This is true across the spectrum of state financing tools used. The enterprise zone program is no exception. Because of the different designs guiding program development in different states, comparisons between and among states is very difficult. This finding greatly complicates the comparison of different state programs. (The Peters-Fisher research analysis makes some specific tax code and incentive comparisons for this study using its simulation model. These are discussed later.)

The CUED survey indicates that all states are at the "starting block" in using performance-based measures in economic development. Ohio is no exception in this regard. The use of state economic development incentives has grown significantly in recent years, as business pressure to provide these benefits increases. This observation is echoed by the Council of State Governments' 1997 report on state business incentives.[39] Tax-based incentive programs have experienced the greatest growth across states. This trend is driven in part by the current business situation where firm profitability is quite favorable, and, therefore, they have profits and income that are subject to taxation at all levels of government. Many of these tax incentive programs help to lower the tax contribution of these firms. In general, businesses "love to hate" taxes.

Taxes matter some in business location, but not nearly as much as most other locational factors. Taxes matter the most in intra-regional and in-state developments and relocations. A large number of businesses in Ohio and other states have engaged in intra-regional relocations and expansions within the same region. This explains why the use of enterprise zone tax incentives has become so popular in recent years. In Ohio, the program has grown in use because of the "business-hostile" tangible personal property tax that increases a business' cost of maintaining inventory in Ohio compared to many other states.[40]

The states surveyed for this study indicated that performance-based measures were a good thing because they help to ensure that state and local governments get their investment back from companies using their incentive programs. New monitoring activities also serve to make these programs more accountable, which is a rising expectation of state legislatures everywhere.

The performance-based management of incentives gives the state added "analytic power" to develop more fair incentive offers, and those that conserve public tax dollars. This analytic power improves the ability of state and local officials to negotiate with firms, which is very important as firms prepare to ask for more incentive benefits. Project-based cost-benefit analysis is becoming more common, especially on large development projects. Yet, this analysis is far from common in any systematic way. Interviewees for this study expressed a desire to have improved cost-benefit analysis tools: one of the main goals to be served by this study project.

Most states recognized the need to place reasonable expectations on businesses in terms of paperwork reporting. At the same time, contract agreements are becoming much more specific in terms of expectations that the firm delivers the benefits it promises in exchange for an incentive.

Some state development agencies expressed a desire to see defined fiscal limits set that govern how much the state can invest in development projects in any given year. While budget authorizations set the limits for certain programs, this is not the case with tax incentives that represent "foregone or "invested" tax revenues. Tax expenditure budgets appear to be moving some states in this regard. A few interviewees expressed an interest in creating an inter-agency development budget that looks across many state agencies economic development investments in business assets, public infrastructure, worker training and employment services, and other things.

State officials were asked whether they preferred to use direct business incentive programs or rely to a greater extent on favorable statewide business climate policies. In general, most see the need to maintain a combination of both. During the course of the OEDS study, a recurring question asked was whether it is best to continue to use enterprise zones or to adjust/eliminate the Ohio tangible personal property tax. We would like to offer some perceptions on these proposed choices. First, we should examine the evidence from earlier studies and investigations.

The Ohio Commission on Taxation and Economic Development took the position several years ago that the tangible personal property tax was a significant deterrent to economic development in Ohio. Our study team is in agreement with the position that the Ohio tangible personal property tax is a competitive barrier for industry investment. We also believe however that any effort to dismantle an existing tax should be carefully considered to ensure that alternative revenue sources could be identified for those activities currently supported by the tax. In 1997, Ohio businesses paid $1.45 billion in tangible business personal property taxes. This is a significant revenue source for Ohio cities, counties, and school districts.

The study team is reluctant to recommend a major state tax policy change solely on the basis of the Enterprise Zone Program evaluation study results. It is clear that more state officials across the country are asking these exact types of questions to understand what is the best thing to do in consideration of the long-term interests of residents and businesses.

A related observation drawn from the CUED survey is that many states, including Ohio, have a difficult time articulating what their most basic vision, goals, and strategies are for economic development. This is by no means intended as a criticism. Rather, it is an honest assessment of the current status of state economic development programs. In the absence of these things, it is very difficult to know whether the enterprise zone program, as well as other economic development programs, are on the right track. This explains our urging that Ohio re-mold its program to tap the deep well of entrepreneurial potential found in Ohio communities.

Many other specific insights are found in the full CUED report on state incentive practices. In general, Ohio's actions to make its economic development programs more performance-based are timely, and they are as good as, if not better than, similar actions in other states. The 1994 legislative changes to the Ohio Enterprise Zone Program are a positive step in the right direction. We do, however, see room for improvement, whether the State of Ohio decides to keep its enterprise zone program on the same basic course, or move it to the next level as we advocate.

Enterprise Zone Manager Survey Results[41]

A mail survey was sent to the 180 managers of enterprise zones in Ohio. Seventy percent (126 managers) returned surveys. Their responses helped to create a "working" understanding of the program at the local level. The survey also provided an opportunity to learn what ideas local officials had to offer to improve the statewide program in coming years.

The overwhelming majority (82%) of these communities used the enterprise zone program to provide tax abatement to expanding firms. Other incentives were considered of secondary importance.

New job creation was the single most important benefit sought from enterprise zone agreements, although long-term tax generation and business retention was also seen as very important outcomes.

Nearly 63% of all firms using zone incentives were manufacturing operations. Service and wholesale firms received some benefit from the program, but not nearly as much as manufacturers. Zone managers indicated that this outcome was a conscious design of the program because manufacturing was viewed as having a greater local economic impact than other types of industries.

Zone managers listed Indiana, Kentucky, and Michigan as the primary out-of-state competitors for projects considered for their zones.

Local real estate taxes, the state inventory tax, and project-specific infrastructure costs were the three business costs that zone managers were most concerned about "off-setting" using enterprise zone incentives. The inventory tax has probably been the most visible cost in the media, but actually real estate taxes have proven to be a slightly more

significant cost to be overcome by the enterprise zone program, according to survey results.

Employment and Payroll Performance Analysis of Firms Receiving Benefits in Five Ohio Enterprise Zones[42]

This study looked at the job and payroll performance of a sample of firms receiving incentives in five enterprise zones: Butler County; Cleveland; Columbus; Lake County; and Washington County. The design was to examine trends in two inner city, two rural, and one suburban zone.

The study provided an analysis of the jobs and payroll performance data from a sample of enterprise zone (EZ) agreement firms during the 1989-1997 period. These data were submitted by the firms to the five local zone managers, as a part of required reporting procedures set by the State of Ohio. These EZ data were then compared to the Ohio ES202 jobs and payroll data, submitted by the same firms to the Ohio Bureau of Employment Services (OBES), which is maintained by the CSU Urban Center in its Ohio Economic Development Information Database. This comparison was designed to check whether the two sets of employment and payroll data were comparable. Study control groups, consisting of non-enterprise zone firms, were established from ES202 records to allow a comparison of the job and payroll performance of EZ and non-EZ firms.

The CSU database was created from the ES202 reports filed by Ohio firms to the Ohio Bureau of Employment Services (OBES). These data, while very confidential, were authorized for employment and economic development research purposes in the late 1980s. CSU's Urban Center manages the research database, with the ongoing support and authorization of OBES. No data revealing the identity or performance of individual firms can be released publicly. Strict confidentiality procedures are followed by the Urban Center in using these data for research.

The major findings of this study are summarized here. First, it was found that the EZ firms performed better overall than their control groups in 3 of the 5 sample enterprise zones. The Butler County, Columbus, and Washington County EZs had higher percentage increases in employment over all three time periods. Lake County EZ firms performed worse overall in the first time period than their Lake County non-EZ firm control group, and better than their control group for the second two time periods. The Cleveland EZ firms performed worse than their non-EZ control group in all three time periods.

Payroll per employee was higher in all periods for each of the sample of EZs than for their control groups. This finding may indicate that higher wages are paid by EZ firms than their control groups.

The Cleveland and Columbus EZs, while both central city zones, had very different job and payroll performance results. The Columbus EZ firms were more positive, which may be accounted for by the fact that the surrounding Columbus city and regional

economic areas are growing more favorably than the Cleveland city and regional economic areas.

We are very cautious in attempting to generalize too far with this sample study. The findings, however, are instructive and suggest that enterprise zones are helping the firms receiving zone benefits to create more jobs than similar type firms in the area not receiving zone benefits. In no way do we mean to imply a causal relationship between the two sets of factors. It does, however, reinforce the view from other aspects of the overall Ohio Enterprise Zone Program analysis that enterprise zones do support job creation and produce some valuable economic benefits.

Results of the Peters and Fisher's TAIM Model Analysis[43]

The TAIM model is a hypothetical firm model to measure the value of incentives to typical manufacturing firms. The model builds financial statements for firms that are representative of various industries. The model measures the net return to each firm, after state, local, and federal taxes, on a new plant investment. The model holds all other business operating costs constant across geographic areas to allow for an understanding of the effect of taxes on net returns, and therefore the profitability of the investment in different locations.

Ten states, including Ohio, were examined by the TAIM analysis. Only six of these states had enterprise zone programs, and, therefore, the TAIM analysis for the Ohio Enterprise Zone Program focuses only on the six states with zone programs. The TAIM analysis looked at the enterprise zone incentives offered in each of the six states: Ohio; Indiana, Kentucky; Michigan; Pennsylvania; Texas, and Virginia.

Twenty-nine manufacturing industries were modeled. These are identified in the TAIM Analysis full report. These particular industries were selected because of their current employment size and expected future growth rate.

The TAIM model generates not only the firm's return on investment in a new plant but also the taxes the firm would pay to state and local governments before and after the new plant is built. The model includes the major taxes paid directly by the business firm as a result of the new plant: the gross property taxes that the firm would pay and the abatement it would receive from the local government, the increased state and local sales taxes paid on purchases of machinery and equipment for the new plant, and the increase in state and local income taxes paid by the firm as a result of the increased taxable income generated by the new plant, less all credits resulting from the new plant investment.

An important distinction is made here between induced investment or jobs—that would not have occurred in Ohio but for the tax incentives under consideration—and the non-induced jobs—those that would have been created anyway. It is important to keep in mind that taxes are a small percentage of total business costs and, therefore, don't provide that much leverage on the location decision. It is probable that in many cases, or even the

majority of instances, of new establishments locating in Ohio, Ohio was already the best location for other reasons and the tax break was unnecessary.

On average across the 29 sectors, if the tax incentives were in fact responsible for the new plant investment, then state and local governments would gain about $10,500 in revenue per job over 20 years. (This is the present value of annual revenues discounted at 10%). About 82% of the gains were to local governments. For non-induced investment, where the tax breaks were not necessary, the revenue given up averaged about $15,000 per job over 20 years. About 66% of this consisted of local revenues. The revenue losses consist of the state income tax revenues foregone due to the investment tax credit and the job creation tax credit (neither of which is related to the enterprise zone program, of course) and the local property taxes foregone through the local enterprise zone abatement. It is important to understand that we are making a with-without comparison here, not a before-after comparison.

After the new plant is completed, the city, for example, will receive more property tax revenues than it did before. But since the new plant would have been built even in the absence of the incentives, without the abatement the city would have received the full amount of property taxes; the amount of the tax abatement thus represents the taxes it has foregone by granting the abatement. It is also important to note that these figures are based on a new branch plant scenario; where an on-site expansion is involved, the locality would also benefit from retained local revenues (corresponding to retained jobs) if the firm had relocated.

Taking these average figures, we can then deduce that for the state and local governments in the aggregate to break even on the incentives modeled here, at least 59% of the job growth that will occur must be induced by those incentives. That is, for every 100 new jobs, if 59 would not have existed in Ohio but for the state and local incentives, then those jobs would have produced a net revenue gain of approximately $621,000. The other 41 jobs would have existed anyway, so the incentives they were provided represent a loss of almost $15,000 per job, for a total of about $621,000. Thus the gains just offset the losses. If the inducement rate were less than 59%, the fiscal effect would be negative. For local governments alone, the break-even inducement percentage is less, about 53%.

To determine whether 53% or 59% is reasonable to expect, we would need to know how effective taxes are in altering location decisions of manufacturers. It would be valuable to be able to assess the effects of Ohio's enterprise zone program on growth in investment and employment for the state as a whole, and the resulting net fiscal effect on state and local governments in the aggregate. The best we can do here, however, is to summarize the conclusions of previous research. The most reasonable estimate of the sensitivity of inter-regional investment location decisions to reductions in taxes is that the percentage change in business activity will be 20% to 40% of the percentage change in taxes. In other words, for every 10% reduction in the state-local tax burden one can expect an increase in business investment or employment of 2% to 4%.

One can then ask: Ohio's typical economic development tax incentives constitute what percentage cut in state and local taxes on new investment? We focus on the overall effects of the general state incentives—the 7.5%/13.5% investment tax credit and the job creation tax credit—in combination with the local zone abatements. These incentives in combination are very large; considering the 29 representative firms in our model, the incentives produced an effective reduction in state and local taxes ranging from about 45% to 76%. The median firm's total state-local Ohio tax burden was reduced by about 58%.

We argued earlier that for the net state-local fiscal effects of Ohio's three major incentive programs to be positive, at least 59% of the new jobs created would have to be induced by the incentives. Is this likely to be the case, given the magnitude of the tax reduction produced by the incentives, and given the kinds of effects reported in the literature?

These estimates imply that a 59% cut in taxes could be expected to produce a 12% to 24% increase in employment above what it would have been without the tax cut. The 59% tax cut, in turn, translates into a 12.5% improvement in the rate of return on investment for the average firm. (The weighted average return in Ohio with no tax incentives was 13.5%, but improved to 15.2% with state general income tax incentives and local enterprise zone incentives.) For fiscal break-even to occur, it would have to be the case that for about 3 out of 5 firms making the decision to invest in Ohio, the 12.5% improvement in rate of return produced by tax incentives was decisive in making the overall return higher than in other states and hence in causing an Ohio site to be chosen. Based on what we know, this does not seem likely.

The picture changes if we focus only on the local enterprise zone incentives. If we take the general state tax incentives as a given and ask what additional benefit accrues to the firm as a result of the local enterprise zone program, we find that local abatements improve the rate of return by about 7% (from 14.2% to 15.2% on average across sectors). As we stated earlier, on average about 53% of job growth must be induced if a local government is to experience a net gain in property tax revenues from enterprise zone incentives. Thus fiscal break-even for a local government would require that for about half of firms investing in a locality, the 7% improvement in rate of return was the decisive factor in their choice of location. Local break-even is more likely, both because the hurdle is lower (only about half of new investment must be induced) and the power of taxes to affect location is greater--the 7% improvement in return is more likely to be decisive because other factor costs will be similar in a metropolitan area.

As we stated earlier, researchers have generally concluded that local incentives are more effective in attracting local investment that otherwise would have occurred outside the locality, compared to the effectiveness of statewide average incentives in attracting investment to the state that would otherwise have occurred outside the state. This implies that many, if not the majority, of the new jobs induced into enterprise zones would have been located elsewhere in Ohio was it not for the zone incentives. This is not to say that these jobs were physically relocated, for we know that such actual relocations make up only a small percentage of new firms in zones. However, for Ohio firms that are building

a new branch plant, or for firms establishing an Ohio presence for the first time, we cannot tell where the new facility would have been built in the absence of enterprise zone incentives attracting the establishment to the zone. If the new plant would have been built somewhere else in the metropolitan area, then the incentives redirected investment, producing gains to one community offset by losses to another.

There is another important feature of tax incentives that bears on intra-metropolitan relocation. Tax abatements and investment credits are targeted at new investment but have no effect on the taxes paid on existing facilities. Such incentives increase the rate of return on new plant relative to the rate of return obtained by continuing to produce in existing facilities. Other things equal, this will cause some older plants to become economically obsolete before they otherwise would have. Such policies, it can been argued, disadvantage older central cities and inner-ring industrial suburbs with a preponderance of old capital and with constraints on expansion at the same site.

We simulated just such a situation, comparing a fabricated metals manufacturer's local tax burden if it expanded its plant in the Akron enterprise zone (and increased employment from 105 to 180), versus building an entirely new plant (employing 180) in the nearby Streetsboro zone. The move would cut the firm's local tax bill by about 64% because the Streetsboro zone abatement would apply to the entire new plant, not just the addition.

An important difference between the Ohio Enterprise Zone Program and enterprise zone programs in most other states is that Ohio does not require that all of its zones exhibit economic distress in order to receive designation. Also, the zones in Ohio are in many instances quite large rather than being confined to smaller economically distressed urban areas. The result is that zones are more pervasive and cover a much larger share of the Ohio population.

These differences have two important consequences for the economic and fiscal impacts of zones. First, the prevalence of zones in a metropolitan area means that, in the competition for new branch plants, the effect of zones on intra-metropolitan location choice has been largely neutralized. If most places that are actively competing for industrial jobs have zones, they provide little or minimal competitive advantage to rivaling areas. Certainly it is true the firms using EZ benefits gain from the zone incentives. Profitability of firms is essential to economic development, as most economic developers would concede. However, when the value of these profits outweigh the economic benefits returned to the community, this should be considered an undesirable outcome. This, in turn, would mean that the majority of enterprise zone jobs are not induced jobs even from the perspective of the locality, and the likelihood of local revenue gains is that much smaller.

Second, the prevalence of zones increases the effects of abatements in promoting the earlier abandonment of older facilities. Where zones are confined to older, urban industrial areas, they help retain jobs in those areas. When growing, more economic healthy suburban and rural communities are able to offer comparable abatements on the

entire value of a new plant; they have a substantial advantage in competing for industry seeking to expand. This puts a substantial burden on the relocation waiver process to successfully identify firms that would leave the state of Ohio altogether (rather than modernize or expand at the existing site) were it not for the incentives offered at a new site.

Local and State Government Fiscal Impact Analysis[44]

The study team analyzed the direct fiscal impact of the Ohio Enterprise Zone program on Ohio state and local governments. The primary focus was on the net tax effect of program incentives and job creation associated with the program. The team also determined the impact of program activity on assessed valuation by examining trends in each of the state's municipalities and townships. We found that tax revenues at the state and local level generated through increased employment generally outweigh state program operating costs. This assessment looks only at the estimated direct costs and benefits as measured in tax revenue terms. It does not include broader fiscal effects related to local infrastructure or other public service expenditures that are financed by state and local government. The scope of this study and available data did not permit analysis of these issues, which we believe should be considered in the future, but are not researchable at this time.

Data limitations were very significant in undertaking this analysis. Only the last three years of program data could be analyzed. We are confident, however, that the findings from this limited time-window analysis are a very good indication of how the program is currently performing. We cannot comment on program performance before 1994. The use of community-level assessed valuation data provides a useful performance yardstick in looking at whether the Enterprise Zone Program contributes to the public revenue base and general community wealth of those communities with enterprise zones. The assessed valuation yardstick is one that we believe state and local government should use to judge the balance between costs and benefits created by economic development programs. Later, we offer a more specific recommendation in this regard.

State Treasury Impacts

The objective of the state fiscal impact analysis was to determine the effect on the state treasury (revenues generated and foregone) as a result of the program. The Enterprise Zone program budgetary data was analyzed, as well as any possible tax expenditures associated with incentives to determine the total costs of the program. The study team also measured the tax receipts associated with the new jobs created by the program. The direct costs of the program to the state treasury include only the operation costs of the program. No state tax revenue is directly foregone from the program. All tax abatements are on property, which is local government revenue. The revenues to the state from the program are increased tax revenue (including Personal Income and Sales and Use Taxes) generated by new employment and company investment in the enterprise zone. The benefits were estimated using data available for jobs created from the Ohio Department of Development Enterprise Zone Program data.

Tax revenues at the state level generated through increased employment from the program outweigh state program operating costs in each year 1994 through 1996. An additional benefit of the program could be an increase in Corporate Franchise tax revenue from the increase in investment of the company. We did not have tax information available for companies in zones to calculate this benefit.

The benefits measured are direct tax revenue benefits of an increase in employment. From the available data, it was not possible to consider the secondary effects of this job creation. These secondary effects are those *indirect effects* - additional jobs created as a result of local spending by the workers or *induced effects* - additional jobs created as a result of increased activity from local suppliers of the business. These indirect and induced effects could be calculated using established multipliers derived from various input-output models, including the REMI Model, the Bureau of Economic Analysis' Regional Input-Output Modeling System (RIMS II) model, the Regional Science Research Corporation (RSRC) I/O model, and others. This was not undertaken since it was not a part of the original project scope; since data problems limit the ability to prepare such a model at this time, and since time and budget resources are not currently available. The State of Ohio should consider this step in its future incentive performance-monitoring program. More guidance on this issue in the recommendations section.

Table 16
Ohio Enterprise Zone Program: Direct State Revenue Impact
(Constant 1994 Dollars, In Millions)

Impact	1994	1995	1996	1994-1996
Revenue Generated	35.13	33.48	27.58	96.19
Income Taxes	16.19	15.92	13.34	45.45
Sales Taxes	13.36	12.44	10.09	35.89
Other Taxes	5.58	5.12	4.15	14.85
Revenue Foregone	NA	0.15	0.18	0.33
Balance	35.13	33.33	27.40	95.86

Source: CSU Urban Center, Ohio State University, ODOD files

Table 16 suggests that the direct revenue impact on the State of Ohio is quite small. This analysis examined only direct tax dollar impacts. We were unable to find or create data to support an analysis of the broader impacts of the program, which was desired by the OEDS Advisory Committee, but technically not possible at this time. The impact is very positive in a net sense. Over the 1994-96 period, the State of Ohio experienced a $95.86 million positive tax contribution from the program's operations. Tax expenditures are minimal, amounting to only $0.33 million over the 3-year period.

Our analysis of job impact data, supplied by ODOD, revealed that over the 1994-96 period, 40,449 new jobs were promised by firms using the program. As of 1996, 28,035 new jobs were actually provided--a 12,414 new job shortfall compared to promised jobs. From an existing job retention standpoint, the program had 81,399 promised jobs, and 70,875 actual jobs retained. The program fell short by 10,524 retained jobs compared to

original estimates. Many factors can explain these discrepancies, including overestimation by firms, data reporting problems, job calculation errors, and impact timeframe differences. Since 1994, the quality of collected data has improved, yet the study team believes there is major room for improvement in the future.

Local Government Fiscal Impacts

The local fiscal impact analysis of Ohio's Enterprise Zone Program examines the direct costs and benefits of the program to the state's localities, as well the impact on the tax base of the communities. This project employed a three-step analytical model. Step One observes the primary fiscal impact of the program. Step Two observes changes in assessed valuation segregated by communities with and without enterprise zones between 1984 and 1996. Step Three observes the degree of the impact of the presence of an enterprise zone within a community, the extent to which assessed valuation is changed

For the period of 1994-1996, at a statewide level and in each of the nine study team-defined economic regions, taxes derived from enterprise zone agreements were compared to taxes forgone to determine a net fiscal impact. The analysis observes 1,124 Enterprise Zone Agreements in over 300 communities in the State of Ohio between 1994 and 1996. All current dollar agreements were converted to 1996 dollars for analysis.

The enterprise zone program generally had a marginal to modest positive fiscal impact on local government finances. See the detailed report for additional information. During this period, new taxes exceeded taxes forgone in nearly all of the individual enterprise zones throughout the state. The revenues derived from new and retained jobs associated with EZ agreements accounted for most of the difference in revenues.

This impact on assessed valuation was first measured by analyzing the differences in the changes in valuation between communities with enterprise zones and those without. The data is grouped into two time periods: 1984-1993 (pre-reauthorization of the Enterprise Zone Program) and 1994-1997 (post-reauthorization.)

The data shows a statistically significant positive correlation between the change in assessed valuation and location of an enterprise zone for Ohio communities with enterprise zones. In the 1984-1993 period, communities with zones were 3 per cent more likely to be above the state median. In the 1994-1996 period, communities with zones, were 6 per cent more likely to be above the state median. The trend is similar at the regional level, though statistically significant for just four of the State's major urban metropolitan regions. Enterprise zones in these regions: Region 5 [Columbus], Region 3 [Cleveland], Region 7 [Dayton], Region 8 [Cincinnati] possess change measures that indicate communities with zones were significantly more likely to be above the region median change. These zones account for roughly two-thirds of the state's population. In the remaining five regions, the analysis indicates no statistical significance in this relationship. Four of these regions (Regions 2, 4, 6, and 9) comprise the state's major rural areas.

A series of multi-variate regression models were used to explore the relationship between the change in community-assessed valuation and the presence of an enterprise zone within that community. The series of equations also included available and pertinent data regarding state economic region, community typology (urban, suburban, rural, etc.), population changes, and the prior history of changes in assessed valuation (1960-1983) in the community.

The equations constructed by the study team accounted for about 40% of the factors that explain changes in community assessed valuation. However, at this stage of analysis it was determined that the presence of an enterprise zone has little effect, barely breaching the level of statistical significance in the analysis. The pre-existing (1960 to 1993) growth trend of a community was an overwhelming determinant of the 1994 to 1997 growth experienced.

What can we reasonably conclude from this key component of the analysis? The three measures together show that the Ohio Enterprise Zone Program has a marginally positive net impact on the State of Ohio's Treasury and the tax bases of Ohio communities using the enterprise zone program. Moreover, this conclusion aligns with the study team's overall observation that Ohio should manage its incentives in the future using a performance-based, portfolio-based, and regionally centered strategy. This is explained later in this report.

General Conclusions

Based upon the analysis, several conclusions are offered about the past and current performance of the Ohio Enterprise Zone Program:

1. **Ohio Enterprise Zone Program is Very Large and Complex**: Ohio has the largest number of enterprises zones of any of the states analyzed. The state had 283 zones as of June 1997, which is unwieldy from a statewide administrative perspective. The proliferation of zones across the state is a compensatory reaction by communities to the Ohio Tangible Personal Property Tax, which places these locations at a serious disadvantage from the business development and job creation standpoint.

2. **Enterprise Zone Impact on State Treasury is Small**: The direct impact of the program is relatively small. The direct fiscal impacts were positive, as supported by Table 16 data. In large part, the program's success has been judged by job creation and retention, which has NOT met the projected numbers provided by companies to Ohio communities during the 1994-1996 period. Based upon existing data, we were unable to analyze broader, including indirect impacts of the program on the state treasury.

3. **Enterprise Zone Impact on Local Governments is Large and Positive:** Our analysis indicates that the program did have a considerable favorable impact on local communities from a fiscal impact standpoint.[45] Moreover the program was

determined to correlate positively with community total assessed valuation growth, indicating that it makes a positive contribution to the community's tax base by adding some to property values. This positive correlation was found in all communities analyzed.

During the 1994-1996 period, the program produced a positive balance of $115.5 million in revenues to local communities using the program. This impact is heavily based upon the jobs retained and created by the program. The analysis assumed that all jobs were tied to the Enterprise Zone investment.

4. **Enterprise Zone Program Meets Existing Legislative and Administration Rules:** From a program administration standpoint, the program is reasonably well administered and managed at the state level. We find no major fault with how the program has responded to new policy changes adopted by the Ohio Legislature affecting the operation and monitoring aspects of the program. The program appears to satisfy the current Legislative rules guiding the program.

5. **Enterprise Zone Program Would Not Meet Future Performance-Based Rules:** Based upon the overall results of this study effort, we do not believe the State of Ohio's rules guiding the program are stringent enough with respect to measuring progress toward goals and accounting for the broader possible impacts of the program on Ohio citizens, industries, and communities. It is the opinion of the study team that the ODOD is not currently prepared to meet these more stringent rules, which may be enacted by the Ohio Legislature in the future.

6. **High Level of Staff Professionalism Demonstrated:** ODOD staff responsible for the program display a high level of professionalism in their work with the program. Staff interviews reflect an effective and adequate working and policy understanding of the program.

7. **Current Staff for Program Monitoring and Evaluation is Limited:** The Department's allocation of staff resources to program monitoring activities is low. Increased monitoring activities would require greater staff time in the future. Staff training in new monitoring and management procedures would be required to effectively implement the recommendations growing out of this investigation.

8. **Favorable Cooperation Received During Study Process:** ODOD has been very cooperative throughout this evaluation of the program. Other state agencies, including the Ohio Office of Budget and Management, the Ohio Department of Taxation, the Legislative Budget Office, and the Legislative Service Commission have also been quite instrumental to the successful completion of this evaluation study.

9. **Program Supervision by ODOD:** It is our view that ODOD has supervised the program on the state's behalf in a responsible, conscientious, effective, and diligent manner. No evaluative comments are offered on local zone management or

performance because this was not an aspect of this evaluation study. However, local zone managers were very cooperative with the study team, and they demonstrated high interest in the preserving existing and increasing future program quality.

10. **Current Policy Guidance and Goals Adequacy:** The Ohio Enterprise Zone Program currently lacks adequate guiding policies and management goals to understand in a complete sense the costs, benefits, and other impacts of the program. This is a serious shortcoming of the program in Ohio and those programs examined in the other states. These shortcomings reflect limited attention to long-term program planning and design, an issue found in many economic development organizations nationally.

    We believe that this strategic dimension would greatly aid in the future assessment of the program's performance. Since this was not an explicit expectation of the program by the Ohio legislature and other bodies, it is not reasonable to impose this as a criticism of the current program. However, we strongly believe that more clear policies and management goals should guide the program in the future. Moreover, communities using the program at the local level should be asked to identify how their zone is guided by overall community economic development goals within an appropriate surrounding regional context. The State of Ohio should require communities with local zones to conform to this new policy orientation. The Ohio Legislature should provide this authority to ODOD to enforce this new requirement.

11. **Lack of Regional Coordination**: At present, rules encouraging regional coordination of the Enterprise Zone Program do not exist. This, again, is not a current expectation of the program. Such coordination would help to reduce the economic inefficiencies created by unplanned growth and poor usage of existing public infrastructure. We would also encourage both the state and localities to explore specific ways in which the program can add a regional development dimension that encourages communities within the same economic region to cooperate in the use of their zones. It would also encourage more innovation and entrepreneurship by communities in a region in meeting future economic challenges and opportunities.

12. **Overall Program Impact:** The findings of this study indicate that the Ohio Enterprise Zone Program produces a marginally positive net direct benefit to the state treasury and local governments. The lack of useful longitudinal program monitoring data prohibits us from assessing the larger indirect and unintended impacts of the program.

    This conclusion must be judged in the context of the current expectations of the program. The study team believes that this overall outcome would be considered generally acceptable in view of current program rules and policies. In the future, such outcomes should be judged against higher standards of performance.

13. **Future Options Dealing With Enterprise Zone:** The study team sees three overall strategies for addressing concerns related to the program. These are:

    a. **Program Phase-Out and Elimination**: This alternative calls for the elimination of the program through a phase-out schedule that reflects current Ohio legal guidelines governing the program. The program faces a late Spring 1999 re-authorization deadline. This would be the appropriate timetable for making policy decisions about the program. This alternative should only be considered if the State of Ohio can successfully repeal the Tangible Personal Property Tax and make other strategic changes to its business tax policies. We believe other alternatives are worthy of greater consideration.

    b. **Retain Existing Program With Strict Performance Standards:** This alternative calls for imposing very strict performance standards that would greatly reduce the number of zones across Ohio. Consolidation of existing zones within Ohio regions would be encouraged. The objective of consolidation would be to cause distressed and non-distressed communities in the region to work cooperatively for net-gain economic development strategies that produce benefits in proportion to the community's tax and other public contribution to the project. Non-distressed zones would face intense phase-out pressure over an appropriate time period. We see problems with this approach, even though the program would be more performance-based and accountable. The main problem is the lack of development focus of the program, even in a revised format.

    c. **Recreate the Program**: Under this alternative, the program would be transformed into an industry-based development tool that encourages and assists Ohio major strategic industry sectors to grow and develop. We believe that this strategy properly focuses geographic-based incentive programs on Ohio's most important industry sectors. Specialized zones would be created in eligible Ohio communities. The new program would be called the Ohio Strategic Development Zone Initiative (OSDZI). This is actually the preferred strategy option by the study team. Details of the recommended alternative are discussed below.

Recommendations

In light of the major findings and conclusions of this study, our study team makes several recommendations on the Ohio Enterprise Zone Program. The first two relate directly to the Enterprise Zone Program and the second two go beyond to include all state economic development programs.

Recommendation 1: (Preferred Alternative) Restructure and Reauthorize the Ohio Enterprise Zone Program

The study team would like to offer a preferred alternative in dealing with issues associated with the Enterprise Zone Program. The Ohio Enterprise Zone Program should be restructured to focus on the needs of the leading industry and business sectors of the Ohio economy. The reshaped program should be called the "Strategic Development Zone Initiative (SDZI)." Six industry/business sector focused zones should be encouraged in qualified communities across the State of Ohio. The restructured program should be reauthorized by the Ohio Legislature. Existing enterprise zones would be either converted into one of the new zone types or over time phased out. The six proposed new zone types are:

1. **Industrial Redevelopment Zones (IRZs):** which foster the revitalization of existing manufacturing and distribution businesses within Ohio communities. The IRZs are intended as a policy initiative to help existing industrial firms to gain new competitive advantage in urban and rural communities experiencing economic distress.

2. **Entrepreneurial Development Zones (EDZs):** which assist communities with the new enterprise formation process. The EDZs are designed to increase the survival rate and growth potential of newly formed enterprises in strategic industries in urban and rural Ohio communities.

3. **Advanced Manufacturing Zones (AMZs):** which create a globally competitive zone for high-performance manufacturing for globally competitive firms. The AMZs are designed to boost the global competitive advantages of manufacturers using advanced manufacturing processes in Ohio.

4. **High Tech Service Zones (HTSZs):** which provide special advantages to technology-oriented service businesses, especially those in information, communication, knowledge, and medical service industries.

5. **Agribusiness and Natural Resource Zones (ANRZs):** which promote the development of advanced agriculture, food, and natural resource industry development in Ohio.

6. **Travel and Tourism Zones (TTZs):** which encourage the growth of a highly competitive travel and tourism industry in Ohio.

Rationale and Further Explanation

The current zones are primarily designed to lower business operating costs for Ohio businesses, regardless of industry affiliation. While the existing zones provide this benefit to firms, they do not reinforce the underlying driving forces of Ohio's economy: manufacturing; technology; entrepreneurship, agriculture, and travel and

tourism. The new program will accomplish this important goal. The new zone program directs the zones to the development of specific industry opportunities across Ohio. At present, the Ohio Enterprise Zone Program produces highly differentiated and unmeasurable economic outcomes. We know from an overall fiscal analysis perspective that the program has slightly greater benefits than costs in a direct impact sense, but it is very unlikely how the program contributes to statewide and local economic development competitiveness. The program has been used as an offset for Ohio's onerous Tangible Personal Property Tax.

Later in this report, we recommend the reduction and eventual phase-out of the Tangible Personal Property Tax. Once this has occurred, the new SDZs would no longer need to offer abatements for this property tax. Until such time, the program should continue to offer tax breaks that reduce the effect of the tax on Ohio industries. Tax benefits available to firms will vary by type zone, based upon the applicable state and local taxes that apply to different industries. The Tangible Personal Property Tax obviously has the greatest impact on manufacturing firms.

More detailed guidance will be provided to the State of Ohio during the implementation phase of the project.

Future Program Vision

The new version of the program should be called the Ohio Strategic Development Zone Program (OSDP). This new program would focus in a more direct way in making Ohio communities more competitive for entrepreneurially based economic development in various strategic industry sectors. Ohio communities would be required to meet certain defined criteria to be designated as a Strategic Development Zone (SDZ). This are described later. This new program plan should provide the content for future legislative re-authorization of the program.

Qualified Businesses

The new Ohio SDZ Program would provide support through the community to those businesses that expand existing facilities, attract new businesses, and/or create new enterprises that add to local economic vitality through entrepreneurial innovation and creativity. The new program should be able to provide available benefits to qualified businesses of all sizes, existing, and newly created enterprises. Economic base firms, or those manufacturing and service businesses that sell the majority of their product or service outside of Ohio, should be the primary target of the new program. No retail, real estate development, mining, or local service type business would be eligible for SDZ benefits.

Zone Benefits Schedule

The schedule for SDZ benefits available to firms currently located or relocating into the zone will vary, depending upon the community's current competitiveness for

economic development, and its economic distress level. A severely distressed zone would be authorized to offer the greatest amount of benefits to firms. A rapid growth community zone would be authorized to offer the least amount of benefits to firms. An analysis of Ohio communities would be conducted to establish more specific parameters in defining how communities would be classified into different zone types.

Zone Designation Procedures

No community may establish more than one SDZ within the first five years of operation of the program. The community may eventually apply to designate a larger area as an SDZ. The initial boundaries of the SDZ may not exceed the size of the geographic area served by its current enterprise zone(s). The community may redraw the boundaries of the area to be served, with appropriate justification to the State of Ohio. Subsequent areas within the community proposed for designation will be considered by the State of Ohio, based upon the evaluation results of the first zone's performance. Communities unable to show favorable progress in reaching their SDZ goals will not be permitted to add other zones, and SDZ designation may be withdrawn for failure to comply with the program's laws, regulations, and administrative rules.

All SDZs will be designated for a period of five years. Re-authorization by the State of Ohio will be contingent upon favorable SDZ evaluation results. This means that communities will not be able to make tax abatement agreements for longer than 5-year periods. Upon review by the State of Ohio and a local Tax Review Committee, these benefits may be extended to firms for up to another 5-year period, conditioned upon favorable state and local review of the agreement. These conditions will be defined in greater detail later in the study project.

Any Ohio community (incorporated jurisdiction) wishing to apply for designation as an Ohio SDZ must:

1. Demonstrate that it is an incorporated municipal jurisdiction in Ohio.

2. Certify that it meets the requirements of the category and type SDZ designation being sought.

3. Pass local legislation assuring that an SDZ is essential to the community's future economic development, and requesting the State of Ohio to designate the community as a SDZ.

4. Prepare and submit an acceptable plan to the Ohio Department of Development describing how the SDZ will be created through conversion from an earlier enterprise zone(s), or by developing a new zone. This plan must include: a) definition of the geographic area to be covered by the SDZ. The SDZ area must be sufficiently large to constitute a developable area; b)

identification of how (specific strategies to be used) the new SDZ will contribute to the growth of a stronger entrepreneurial economy in the community and the surrounding area; c) ongoing goals and annual objectives that will be achieved through the creation and operation of the SDZ; d) organizational arrangements for managing the zone and ensuring its appropriate and effective operations; e) an acceptable strategy to monitor and evaluate the costs, benefits, and impacts of the SDZ each year, and f) demonstrate how the zone will be managed and operated in a coordinated way that does not adversely impact neighboring communities in the same or other Ohio economic region.

(Additional guidance on the SDZ plan will be provided later in the implementation phase of the project.)

5. Identify any and all local government economic development incentives (tax abatement, infrastructure subsidies, land-write-downs, job training assistance, etc.) that the community plans to make available to firms locating or expanding in the zone. Identify a budgeted annual expenditure amount that would limit how much tax revenue is foregone or how other public revenue will be invested in economic development projects within the SDZ.

6. Identify an acceptable plan to recover invested revenues over the short, intermediate, and long timeframe. This recovery of revenues should be based upon the overall portfolio of investments made by the community over a three-year time period. The community must also show the ability to monitor the status of individual business agreements on an annual basis. This plan must include formal written agreements with local school districts and other entities impacted by the zone.

7. Define how it will use clawbacks, recisions, re-calibrations and other steps as performance compliance actions to ensure that firms honor their commitments to produce the economic benefits promised in the SDZ agreement.

Recommendation 2: Ongoing State Monitoring of the Enterprise Zone Program

We find that the program lacks sufficient monitoring and evaluation procedures to ensure that the program can operate in a performance-based manner in the future. We recommend that:

1) The Ohio Department of Development (ODOD) track the performance of new local SDZs on an ongoing basis – this monitoring effort should grow directly out of the design and planning of these new zones in the future. ODOD staff should work with communities in the design, planning, and designation of the new SDZs.

2) That ODOD work with a committee from Ohio Office of Budget and Management, the Ohio Department of Taxation, and the Legislative Budget Office to provide an annual detailed evaluation and accounting for the performance of the new SDZ Program. Outside research entities such as universities and private consulting firms should be enlisted to help on appropriate aspects of this analysis. The appropriate Legislative oversight committees and task forces should serve as the audience for these reports. An in-depth assessment of program performance should be conducted every three years.

3) Devise specific performance measures that will be used to assess the performance of the overall statewide program and individual zones. These performance measures should include:

- impacts on higher quality job creation;
- impacts on development and growth in distressed and non-distressed places;
- short and long term fiscal costs and benefits to state and local government;
- impacts on personal income growth;
- effects on the spatial pattern of development in regions and states;
- effects on different population segments, especially the poor and minorities;
- effects on natural resources and physical environmental conditions; and
- effects on the competitiveness of strategic industries, technologies, and entrepreneurial development factors driving local and state economic growth.

4) A highly user-friendly, technically acceptable, and cost-effective fiscal impact analysis model should be used for the state level analysis. Local communities with SDZs should be given the appropriate components of that model to conduct their annual impact and performance analyses. This must be easy to use and based upon standardized data analysis. This standardized model will utilize either an existing economic model, or a new one devised specifically for Ohio's use. The CSU project study team will define the parameters for this model, which will in all likelihood be used to assess the impact of the state's other incentive programs as well. CSU will not design or develop this model as part of this contract. The model should also be acceptable for conducting cost-benefit analysis on large-scale development projects.

Recommendation 3: Reduce and Eventually Phase Out Ohio Tangible Personal Property Tax

The findings of this study indicate that the tangible personal property tax is a major source of competitive disadvantage to Ohio businesses, especially its strategic manufacturing sector. We recommend that the tax be reduced over time with eventual phase-out reached. The study team is fully aware of the need to replace the tax revenues

lost by the elimination of this tax source. We discuss possible alternatives in a separate section of this report. The current Ohio Enterprise Zone Program is an awkward and costly stop-gap solution to overcome the negative effects of this tax on Ohio business. The new Strategic Development Zone Initiative would continue to serve as an offset for the tax until the tax is removed/replaced. Once the tax has been repealed, the SDZs would no longer provide abatements against this tax.

Recommendation 4: Prepare a Biennial Comprehensive State Development Budget Preparation

The State of Ohio should prepare a comprehensive budget of all GRF and non-GRF expenditures that relate specifically to economic development. This would include appropriate economic development expenditures by all state agencies and departments. Clearly this recommendation goes far beyond the Enterprise Zone Program, but it is offered in this context to encourage the Advisory Committee to begin thinking about the concept. The study team will provide more detailed guidance on this proposal later. The study team will work with the State of Ohio to assist it in preparing an outline and draft Comprehensive State Development Budget of Ohio (CSDB). The Ohio Office of Budget and Management and the Ohio Legislative Budget Office may be the most appropriate starting point for this proposal.

CHAPTER 7 - COMMUNITY REINVESTMENT AREA (CRA) PROGRAM

Purpose

This chapter discusses the results of the direct impacts of the Community Reinvestment Area (CRA) Program on the State of Ohio.

Credits

This program analysis was conducted by CSU's Urban Center researchers, Billie Geyer and Adina Swirski.

Methodology

The analysis was limited to an assessment of the direct impacts of the program on the State of Ohio. Internal ODOD data formed the basis for the analysis.

Program Overview

Community Reinvestment Areas (CRAs) were first authorized in 1977. Major amendments to the legislation for CRAs occurred in 1993 and 1994. CRAs that were created prior to July 1, 1994 are not subject to the provisions of the amended legislation.

Community Reinvestment Areas grant local real property tax incentives for businesses that expand or locate in Ohio. Incentives are available for up to 100% exemption of the value of real property improvement for up to 15 years. To be eligible, a property owner must undertake new real property investment. Application for the real property local tax exemption is made directly to the municipality or county that created the CRA.

A CRA is defined in Ohio Revised Code Section 3735.65 as an area within a municipal corporation or unincorporated area of a county for which the legislative authority has adopted an resolution describing the boundaries of the area and containing a statement of finding that the area is one in which housing facilities or structures of historical significance are located and new housing construction and repair of existing facilities or structures are discouraged.

As of 1993, municipal corporations or counties that created a CRA were required to submit a status report to ODOD that summarizes the activities and projects for which an exemption had been created. In 1994, additional amendments were made to the CRA legislation. These changes generally applied only to CRAs adopted on or after July 1, 1994. To create a CRA, legislative authorities must petition the Director of Development to confirm the findings described in the resolution. Also, if zoning restrictions in any part of a CRA change after the petition has been made, the legislative authority must notify the Director and submit a map indicating the new zoning restrictions. In addition,

agreements within the CRA must be approved by the affected school board, except in certain cases.

The goal of the CRA Program is to encourage investment and reinvestment in areas where housing facilities are located and where new construction and renovations are discouraged. The program permits municipalities and counties to designate areas of under-investment where they may offer property tax exemptions as an incentive to boost investment. The program, which is separate and distinct from the federal Community Reinvestment Area (requires lending institutions to lend within their service area), can be used to encourage historic preservation as well as renovation and new construction in the residential, commercial and industrial sectors.

The two types of CRAs in Ohio--those created prior to July 1, 1994 and those initiated after that date--are governed by different sets of regulations. However, in each case the size and number of areas and the term and extent of the real property tax exemption is determined by the local legislative authority. A Housing Survey must be undertaken to identify eligible areas. Those include areas where housing facilities are located and where renovation and new construction are discouraged.

Property owners who meet the CRA requirements can apply to their local governments designated housing officer. Application is made after the improvements have been completed for programs begun prior to July 1, 1994 unless otherwise stipulated within the creating legislation. For the newer CRAs, applications are filed at construction completion for residential and before construction begins for commercial or industrial facilities. Other terms of the two programs are defined in Table 17.

Table 17
State of Ohio Community Reinvestment Area Programs

Item	Prior to July 1, 1994	Post July 1, 1994
Exemption Levels:		
Real Property	Must be 100%	Up to 100% (*)
Personal Property	None	None
Inventory	None	None
Term Exemptions:		
Residential Remodeling (less than 2 units)	Up to 10 Years	Up to 10 Years
Residential (> 2 units), Commercial & Industrial	Up to 12 Years	Up to 12 Years
New Construction Residential, Commercial & Industrial	Up to 15 Years	Up to 15 years

(*) Commercial and Industrial CRA agreements must ensure that 50% of the amount of taxes which would have gone to the school district be made up by other taxes or payments.

The local government may designate the type of development (residential, commercial and/or industrial) to be supported by the CRA Program. The local legislative authority must designate a housing officer to review applications and a Tax Incentive Review Council to review performance on all agreements and projects. Further, all CRAs created after July 1, 1994 must receive confirmation from the Ohio Department of

Development prior to formally granting a real property tax exemption. In municipalities with local income taxes, projects that generate new annual payrolls of one million dollars or more must incorporate a revenue sharing agreement that has been negotiated between the municipality and the board of education. The CRA Program is a permanent tax exemption program which does not sunset but local governments may include an annual review to ensure the program is meeting expectations.

Financial Information

Information regarding state expenditures, or the amount of tax revenues forgone as a result of the program, is not available for pre-July 1, 1994. CRAs and is too recent to be useful for the newer program. The amount of investments and new jobs are reflected below by year, by county and for the seven largest cities in Ohio.

The data available in electronic form reflects total real and personal property investments of $6.7 billion and nearly 69,000 jobs by 2,662 parties receiving tax exemptions under the Community Reinvestment Area program. These amounts are understated since an estimated 30% of the pre-July 1, 1994 projects have not yet been included in the database. The level of investment peaked during 1993 and 1995 while new jobs promised were the highest in 1995 and 1996.

Table 18
Reported Investments and Jobs by Year

Year	Investments (1997 Dollars)	Jobs	Number of Projects
Prior to 1978		782	138
1978	33,173,155		1
1979	135,284,187		3
1980	463,175	6	2
1981	-		1
1982	60,991,625	1,007	14
1983	11,309,269	331	20
1984	247,793,921	1,894	29
1985	35,102,816	1,171	44
1986	180,841,966	3,124	60
1987	90,886,281	2,345	102
1988	911,434,715	6,929	161
1989	181,338,253	2,155	147
1990	328,951,979	4,730	189
1991	245,360,128	4,584	190
1992	142,973,328	3,019	135
1993	1,012,255,144	6,516	177
1994	638,565,230	4,072	216
1995	1,175,551,472	9,976	206
1996	375,202,363	7,765	331
1997	664,248,609	7,541	377
1998	266,093,849	904	118
1999	5,100,000		1
Total	**6,742,921,464**	**68,851**	**2,662**

The highest levels of activity were not always in the most populated counties. Franklin and Warren Counties were significantly larger than other counties in the state, with Fulton, Logan and Miami Counties rivaling Cuyahoga, Montgomery and Lucas Counties in the $400 to $500 million range of investments.

Table 19
Reported Investments and Jobs by County

County	Investments (1997 Dollars)	Jobs	Number of Projects
Allen	9,325,157	36	24
Ashtabula	12,044,901	166	15
Auglaize	21,352,097		18
Butler	64,558,343	160	9
Champaign	30,037,732	845	11
Clark	4,328,692	227	8
Clermont	141,897,704	36	6
Clinton	12,317,636	36	39
Crawford	856,201		15
Cuyahoga	553,760,087	6,893	249
Darke	96,432,547	468	10
Delaware	1,986,000	70	2
Erie	22,215,170		29
Fairfield	4,030,061		10
Fayette	51,888,082	2,008	8
Franklin	1,661,480,247	24,458	160
Fulton	548,019,507	731	55
Geauga	45,562,593	3,129	42
Greene	12,080,682	410	8
Guernsey	35,844,525	378	9
Hamilton	31,282,339	268	16
Henry	22,749,446	373	25
Highland	7,468,193	97	10
Hocking	-	213	3
Huron	-	40	2
Lake	28,556,444	284	67
Lawrence	2,528,792		7
Licking	15,335,367	508	9
Logan	487,841,326	442	22

Table 19 Continued
Reported Investments and Jobs by County

County	Investments (1997 Dollars)	Jobs	Number of Projects
Lorain	51,526,762	1,624	37
Lucas	397,379,077	1,980	626
Mahoning	45,893,530	304	13
Marion	14,684,272	36	6
Medina	150,721,433	3,072	148
Mercer	25,619,269	506	67
Miami	487,113,697	4,127	156
Montgomery	456,218,072	5,683	202
Morgan	3,997,802	50	1
Morrow	2,199,326	22	1
Paulding	1,863,746	36	8
Preble	1,120,470	36	1
Putnam	36,594,813	143	30
Ross	5,089,213		24
Sandusky	4,838,684		10
Scioto	3,556,454	220	9
Shelby	15,081,501	309	37
Stark	-		20
Summit	88,778,849	1,516	87
Tuscarawas	3,481,022	0	18
Union	196,085		3
Warren	944,133,430	4,391	162
Wayne	10,244,138	438	8
Williams	22,291,295	992	43
Wood	44,518,654	1,090	57
Total	**6,742,921,464**	**68,851**	**2,662**

Columbus and Toledo are major participants in the CRA program as reflected in Table 20 below. Columbus reported 16 projects with total investment commitments of $985 million and a promised job creation figure exceeding 11,000. The four cities with CRA projects represented 19% of the total investments and 17% of the jobs promised over the last twenty years.

Table 20
Reported Investments and Jobs by City

City	Investments (1997 Dollars)	Jobs	Number of Projects
Akron	0	0	0
Cincinnati	14,411,587	72	9
Cleveland	0	0	0
Columbus	985,011,276	11,502	16
Dayton	8,882,505	0	21
Toledo	268,718,494	0	544
Youngstown	0	0	0
Total	**1,277,023,862**	**11,574**	**590**

Participants in the post-July 1, 1994 program submit annual reports with substantially more data fields than are received for areas covered by the older program (including committed and actual amounts of investments, new and retained jobs, the total payroll associated with those jobs and the amounts of property taxes paid and forgone). This information is summarized in Table 21 below.

Table 21
Post July 1, 1994 CRA Program Information

Year	Committed Investments	Actual Investments	Committed Job Creation	Actual Jobs Create	New Payroll	Real Property Taxes Paid	Real Property Taxes Forgone
1994	$32,000,000	$44,745,560	60	87	$1,440,000	$280,427	$216,863
1995	$553,547,090	$654,011,481	211	1,269	$36,166,503	$249,481	$1,191,413
1996	$98,396,000	$82,791,974	342	398	$6,120,262	$475,229	$33,949
1997	$212,333,086	$13,978,354	964	60	$15,085,158	$3,972	$3,430
Total	**$896,276,176**	**$795,527,369**	**1,577**	**1,814**	**$58,811,923**	**$1,009,109**	**$1,445,655**

The annual report information submitted by participants in the newer program can be compared to the original terms of the CRA agreement as a means of assessing reporting accuracy and project success which will be useful in conducting an evaluation of the program in the future.

Interview Assessment Results

An assessment of this program was conducted by the National Council for Urban Economic Development through interviewing economic development officials from 10 jurisdictions. Five of the interviewees had experienced the CRAs formed prior to July 1, 1994 and five had been involved with the newer CRAs.

A majority of the officials interviewed indicated that the program was important or at least useful in their efforts to promote local economic development. One jurisdiction stated that it used the program primarily for residential development since the Enterprise

Zone program was their primary tool for attracting business development. The Enterprise Zone program was cited as the most common alternative to the CRA program.

The most frequently cited reason for using the CRA program was to attract new businesses to the area. The program is one of the tools available to allow them to compete with other areas both within the state and outside of Ohio. A few respondents had been told that the abatements were the deciding factor in a company's location decision but others said the program's importance in the deal was less clear.

Interviewees discussed the number of jobs created to describe the success of specific deals. An airfreight company attracted to one area now employs 1,125 people while another official stated that his town had attracted 35 companies generating approximately 4,000 jobs under the early version of the program. While many of the companies employed fewer than 100 people, annual additions of 10 to 15 people at many of the companies add up to significant increases in employment.

One respondent operating under the old program indicated that it was a better program for helping small business while the Enterprise Zone program was geared more for larger companies. It was also cited as a way to develop underutilized or deteriorating areas within their jurisdiction.

For both of the CRA programs, interviewees said that they saw potential in combining the program with other economic development tools, however few had done so. Combining the program with Enterprise Zones, revenue bond financing and the SBA-504 loan program were cited as possibilities. However, combinations with Enterprise Zones raised concerns regarding the effect on school district revenues and the recently enacted restrictions on intra-state relocations.

Overall, the respondents were glad that the CRA program is available because it had produced jobs and encouraged investments that might not have occurred otherwise. The program was described as less flexible than the Enterprise Zone program and as a necessary evil that had to be used to compete with other communities that used it.

The respondents generally agreed that the CRA program should continue and that if it were discontinued they would try to find a way to resurrect it. The consensus was that the program was part of a healthy business climate and a critical development tool that should be available to local jurisdictions in their efforts to attract jobs and investment to their area.

The reported number of new jobs associated with the reported CRA projects also reflects a heavy concentration in western Ohio on a per capita basis. Northeastern Ohio also reflects a high incidence of reported job creation, especially three surrounding Cuyahoga County.

Major Findings

The data received on the Community Reinvestment Area program has too many limitations to be useful for evaluation research purposes at this time. The information on the older CRAs is too sparse and inconsistent to be of value and a portion of the CRA data has not yet been entered into the computer files. Information on the newer programs will be more useful in the future, assuming those steps are taken to ensure a reasonable level of reporting accuracy. At this time these programs are also too new to assess how well commitments have been fulfilled.

The results of the interview assessment of the program conducted by the National Council for Urban Economic Development revealed that a majority of the interviewees (10 economic development officials from 10 jurisdictions) felt that the CRA program provides a tool that is vital in their attempts to compete with other jurisdictions both within and outside of the State of Ohio in attracting investment, businesses, and jobs to their areas. Yet, in our overall look at the program, we see significant duplication problems where communities use the CRA program and Enterprise Zones to provide tax incentives to businesses.

Conclusions

The CRA Program is one of Ohio's longest standing incentive programs. While many communities continue to rely upon the program statewide, our study results indicate that the program is in major need of restructuring and revision. The program is not sufficiently performance-based and appears to be redundant with the Enterprise Zone Program in many communities. We do not believe that Ohio communities should be using both incentive tools at the same time. Communities should be asked to choose which of the two programs they plan to use in the future. Secondly we believe that all CRAs in Ohio, regardless of their year of establishment, should be held to higher performance expectations. All CRAs should be required to meet the same performance measurement tests as new Enterprise Zones. Third, housing related CRAs should be separated from economic development related CRAs. This study advises the State of Ohio only on how to deal with its economic development related CRAs. We believe over time that the State of Ohio should phase out and discontinue the CRA Program in all forms. A plan to accomplish this action should be investigated by the state in the very near future.

CHAPTER 8 - TAX INCREMENT FINANCING AGREEMENTS

Purpose

This chapter presents an analysis of tax increment financing agreements in Ohio, which is currently a relatively small program in Ohio compared to other incentive programs, such as the tax credit programs and the Enterprise Zone Program.

Credits

The analysis underlying this chapter was conducted by CSU's State and Local Government Initiatives Program, under Kevin O'Brien's supervision.

Methodology

The analysis was limited to an analysis of available internal ODOD data.

Program Overview

Tax Increment Financing (TIF) is a mechanism to finance public infrastructure by redirecting new real property tax revenues to a targeted debt retirement fund. The types of TIF programs authorized by the Ohio Revised Code (O.R.C.) include municipal, township, and county programs.

Municipal TIF Programs (O.R.C. Sections 5709.40 - .43)
According to the O.R.C., the legislative authority of a municipal corporation, by ordinance, may declare improvements to a parcel of real property located in the municipal corporation to be a public purpose. Improvements for residential purposes may be declared a public purpose only if located in a blighted area of an impacted city. The improvements may be exempted from taxation for up to 10 years, or up to 30 years with the approval of the city, local, or exempted village school district within the territory of which the improvements will be located. These designations made by the O.R.C. were made effective in 1993.

The owner of any structure located on the parcel may be required to make annual service payment in lieu of taxes to the county treasurer. A municipal public improvement tax increment equivalent fund must be established by the legislative authority of the municipal corporation in which to deposit the payments in lieu of taxes. The money deposited must be used to finance the specific public improvements designated in the ordinance. The municipal corporation also may deposit income tax revenue dedicated to finance public improvements into the municipal public improvement tax increment equivalent fund. The details regarding the payments and funds were established by the O.R.C. in 1976.

Township TIF Programs (O.R.C. Sections 5709.73 -.75)
The O.R.C. organizes the township TIF programs similar to those of the municipal programs. One distinction is that a board of township trustees adopts the resolution to declare a public improvement to have a public purpose and to qualify for the TIF. The improvements may also be exempted from taxation for up to 10 years, or up to 30 years with the approval of the board of education.

The township may require annual service payments in lieu of taxes in the same fashion as the municipal corporation. The only difference is that the fund is called the township public improvement tax increment equivalent fund. The O.R.C. sections pertaining to township TIF programs became effective in 1987.

County TIF Programs (O.R.C. Sections 5709.77 - .81)
The O.R.C., again, established the county TIF program similar to the already-described municipal corporation program. The local authority for the program comes from the board of county commissioners which, by resolution, declares improvements to a parcel of real property in the county to be a public purpose. The county also may collect and use service payments in lieu of taxes as stated for the municipal corporation. These payments are to be deposited in a redevelopment tax equivalent fund established by the board of county commissioners.

In addition to the terms which apply to the municipal and township TIF programs, the O.R.C. gives the board of county commissioners the authority to issue revenue bonds or notes to refund general obligation or mortgage revenue bonds or notes, or revenue bonds issued prior to the effective date of the resolution to finance any public infrastructure improvement. The O.R.C. sections which made the county TIF programs possible were made effective in 1990.

Program Background and Goals
Tax increment financing (TIF) in Ohio is utilized to assist in larger development projects by capturing the projected property tax revenue stream to be created by the development and investing that resource into improvements associated with the project. These improvements are largely infrastructure-related. The overriding goal of the use of TIF districts is to encourage and stimulate major new construction and renovation through private sector initiative in Ohio's growing and targeted economic development areas. Major objectives of using TIF districts in Ohio are to reinvest the benefits of economic development into the area concerned; to promote development of mixed use, commercial, and large-scale industrial projects; and to create a perception of receptivity to economic development in the pubic interest.

State Expenditures for Tax Increment Financing
The use of TIF mechanisms by local governments and the private sector in the State of Ohio has encouraged in excess of $2 billion of investment during the last two decades, influencing the creation of over 20,000 jobs. The State of Ohio does not actually allocate expenditures for TIF districts. The investments in the following tables should be construed as indicators of possible tax revenues forgone due to the inability to directly capture revenues for general expenditure purposes (save for the growth of local and state

income tax revenues). The following analysis describes the growth of TIF districts in Ohio from both a developmental and geographical perspective.

Program Review Findings

Table 22 documents the activity levels of TIF districts in Ohio since 1975, which, overall, shows a significant growth trend in their use and their outcomes in terms of investment and job creation. Much of this increase has to do with the expansion of eligibility to a larger number of governance areas. However, some of the increase can be attributed to the perceived viability of the mechanism itself.

Table 22
Yearly Investments and Jobs in TIF Districts for the State of Ohio

Year	Committed Investment (1997 Dollars)	Actual Investment (1997 Dollars)	Committed Jobs	Actual Jobs Created	Number of TIFs
1975	$223,880,597	$576,456,119	-	8,400	1
1980	$175,438,596	$17,543,860	-	-	1
1981	$0	$9,392,008	-	-	1
1983	$1,449,275	$2,093,398	-	-	1
1984	$116,692,427	$116,692,427	-	-	1
1985	$14,903,130	$0	115	8	1
1987	$5,155,367	$5,155,367	154	254	2
1988	$45,590,231	$78,658,788	90	765	9
1989	$1,813,472	$1,813,472	-	87	1
1990	$13,063,497	$110,130	-	4	5
1991	$11,337,264	$21,214,151	157	714	10
1992	$318,649,886	$301,546,453	2,690	2,280	5
1993	$46,359,489	$28,584,936	380	1,157	13
1994	$137,343,413	$106,904,465	6,889	5,559	32
1995	$303,341,144	$792,653,748	2,148	1,697	19
1996	$223,456,033	$72,737,831	8,802	1,270	21
1997	$153,133,000	$236,128	2,937	199	19
1998	$1,477,833	$13,464,167	410	-	10
Total	**$1,793,084,653**	**$2,145,257,447**	**24,772**	**22,394**	**152**

Table 23 illustrates investments and job creation in TIF districts in the State of Ohio by district type. Of the six types utilized, those TIF districts related to industrial and commercial uses are the most successful. These types of districts account for nearly all of the investment and job creation related to TIF district development. The prevalence of these types of TIF districts for the most part reflects the industrial economic base of the state.

Table 23
Investments and Jobs in TIF Districts for the State of Ohio, by Type, 1975-1998

Type of TIF District	Committed Investment (1997 Dollars)	Actual Investment (1997 Dollars)	Committed Jobs	Actual Jobs Created	Number of TIFs
Commercial	$1,062,723,687	$976,466,513	18,969	14,625	87
Industrial	$637,342,045	$1,154,131,347	5,436	7,091	51
Industrial and Commercial	$41,842,257	$9,604,592	-	-	3
Residential	$12,312,026	$0	35	3	3
Residential and Commercial	$2,329,009	$2,329,009	-	41	2
Mixed(C,I,R)	$36,535,629	$2,725,986	332	634	6
Total	**$1,793,084,653**	**$2,145,257,447**	**24,772**	**22,394**	**152**

Table 24 shows the investment and job creation levels by counties that have used TIF districts to fund infrastructure for economic development-related projects. Thirty of Ohio's eighty-eight counties have used TIF districts and twenty-seven of these counties have reported significant results.

Table 24
Investments and Jobs in TIF Districts for the State of Ohio, by County, (1975-1998)

County	Committed Investment (1997 Dollars)	Actual Investment (1997 Dollars)	Committed Jobs	Actual Jobs Created	Number of TIFs
Ashtabula	$50,000	$0	50	50	1
Belmont	$110,130	$110,130	-	4	1
Butler	$25,071,387	$12,967,123	-	-	3
Clermont	$10,036,836	$0	35	3	1
Cuyahoga	$24,927,443	$7,315,585	-	50	4
Defiance	$0	$0	110	-	2
Delaware	$23,839,146	$6,024,763	-	435	1
Fayette	$36,892,125	$15,318,242	450	779	4
Franklin	$474,391,798	$605,830,208	12,402	11,763	25
Fulton	$119,951,116	$654,348,279	528	408	2
Gallia	$5,000,000	$0	545	145	2
Hamilton	$420,751,651	$247,413,387	900	41	18
Hancock	$12,556,278	$13,162,814	500	1,840	4
Huron	$0	$0	100	-	1
Licking	$26,584,867	$28,629,857	500	470	1
Lucas	$14,864,963	$5,878,650	-	345	13
Mahoning	$11,456,667	$6,666,667	180	220	3
Mercer	$37,310,838	$32,977,682	128	-	2
Montgomery	$9,038,902	$9,038,902	-	-	2
Morrow	$60,003,161	$73,462,592	280	295	1
Muskingum	$1,516,793	$1,451,788	3,309	138	2

Table 24 Continued
Investments and Jobs in TIF Districts for the State of Ohio, by County, (1975-1998)

County	Committed Investment (1997 Dollars)	Actual Investment (1997 Dollars)	Committed Jobs	Actual Jobs Created	Number of TIFs
Portage	$2,277,778	$12,530,597	50	247	1
Putnam	$18,633,000	$230,000	5	-	2
Richland	$2,107,482	$1,580,611	40	50	1
Stark	$23,669,975	$23,669,975	561	561	2
Summit	$51,548,635	$38,262,714	480	835	27
Trumbull	$0	$0	-	-	1
Warren	$351,243,484	$326,553,486	3,406	3,582	23
Wood	$29,077,977	$21,700,738	180	100	1
Wyandot	$172,222	$132,658	33	33	1
Total	**$1,793,084,653**	**$2,145,257,447**	**24,772**	**22,394**	**152**

Table 25 presents TIF activity levels for the seven major cities in the State of Ohio. In the aggregate, TIF activity in these cities accounts for nearly a third of both total TIF-related investment and job creation. Cleveland, Dayton, and Toledo report no TIF-related activity while Cincinnati and Columbus report significant activity. In that both the Cincinnati and Columbus metropolitan areas have experienced economic growth since the 1970's, and the others for the most part have not, it should not be surprising to observe the absence of TIF activity for the three cities mentioned. The disproportionate representation of Ohio's major cities (save the three mentioned) in relation to their respective populations reflects the continued economic importance of central cities as engines of growth and development.

Table 25
Investments and Jobs in TIF Districts for the State of Ohio, by Major City, 1975-1998

City	Committed Investment (1997 Dollars)	Actual Investment (1997 Dollars)	Committed Jobs	Actual Jobs Created	Number of TIFs
Akron City	$49,190,144	$36,199,035	480	835	26
Cincinnati City	$339,300,775	$160,165,004	300	-	4
Cleveland City	$0	$0	-	-	-
Columbus City	$436,111,272	$576,456,119	7,000	8,400	7
Dayton City	$0	$0	-	-	-
Toledo City	$0	$0	-	-	1
Youngstown City	$6,666,667	$6,666,667	180	220	2
7-City Totals	**$831,268,858**	**$779,486,824**	**7,960**	**9,455**	**40**

Table 26 highlights the investments and job creation related to TIF districts in Ohio's seven major urban counties (central city and suburbs). By adding in the suburbs, one is

able to illustrate further the importance of core urban areas for economic growth and development. Specifically, the number of TIF districts increased by 52, accounting for over 1/3 of all TIF districts. The number of created jobs increased by nearly 4,000. Ohio's seven major urban counties account for nearly ½ of all investment related to TIF district activity and over ½ of all jobs created related to TIF district activity. Again, these disproportionate levels reiterate the importance of urban areas in fostering continued economic growth

Table 26
Investments and Jobs in TIF Districts for the State of Ohio, by Major Urban County, 1975-1998

County	Committed Investment (1997 Dollars)	Actual Investment (1997 Dollars)	Committed Jobs	Actual Jobs Created	Number of TIFs
Cuyahoga	$24,927,443	$7,315,585	-	50	4
Franklin	$474,391,798	$605,830,208	12,402	11,763	25
Hamilton	$420,751,651	$247,413,387	900	41	18
Lucas	$14,864,963	$5,878,650	-	345	13
Mahoning	$11,456,667	$6,666,667	180	220	3
Montgomery	$9,038,902	$9,038,902	-	-	2
Summit	$51,548,635	$38,262,714	480	835	27
7-County Totals	**$1,006,980,059**	**$920,406,113**	**13,962**	**13,254**	**92**

Conclusions

In that no formal evaluation of the fiscal impact of TIF activity in the State of Ohio has been completed, the following concerns may serve as a starting point for the future. First, the actual impact of TIF district development is not known due to the lack of good monitoring data. Two important items needed to assess this impact are the actual "increment" realized in the increase in TIF district property values—and the impact on local government finance, and the increase in local income tax revenues—if a local tax exists—due to the activity generated within the TIF district. Second, an understanding of the differential use of TIF mechanisms throughout the state needs to be arrived at. Does the total lack of use of TIF mechanisms in three of Ohio's largest cities indicate prohibitive local conditions (such as negative school district reaction)? Or does this absence of use reflect poor public finance management in these cities? In any event, further evaluative procedures to study the impact of TIF district development in Ohio are warranted. In the future, the State of Ohio should encourage local governments to make more widespread use of TIFs as a development financing alternative to Enterprise Zones and other more costly business incentives.

We believe this tool could help overcome some of the unproductive competition among neighboring jurisdictions in the same economic region. The program should be redesigned in light of the study recommendations made in Chapter 20. Local

governments should be encouraged by the State of Ohio to adopt the new performance measurement system recommended by the CSU team.

CHAPTER 9 - JOINT ECONOMIC DEVELOPMENT DISTRICTS

Purpose

This chapter presents an analysis of joint economic development districts in Ohio, which is currently a relatively small program in Ohio compared to other incentive programs, such as the tax credit programs and the Enterprise Zone Program.

Credits

The analysis underlying this chapter was conducted by CSU Urban Center researchers Billie Geyer and Adina Swirski.

Methodology

The analysis was limited to an analysis of available internal ODOD data.

Program Overview

Joint Economic Development Zones were first authorized in 1984. The zones allow two or more municipal corporations to share in the costs of improvements for a designated area. Joint Economic Development Districts (JEDDs or districts) were created in 1993, allowing for municipal corporations and townships to designate a district and to levy an income tax within the district. The primary focus of this profile is on JEDDs.

The 1995 legislation extensively broadened eligible areas. In addition, different methods for creating Joint Economic Development Districts are specified. Only municipal corporations or townships located in a charter county may continue to create districts under the two methods specified by the old rules.

The new legislation adds a third method that may be used by other municipal corporations and townships to create districts. Under this provision, districts may be created by municipal corporations and townships that are located in the same county or in adjacent counties. This type of district also requires that the contracting parties deliver a copy of the contract to the affected counties' board of commissioners before approving it. Finally, an income tax may be levied based only on the income earned by persons working within the district and the net profits of businesses located within the district. Under the first two procedures, an income tax could also be levied on the income of persons residing in the district.

Am. Sub. House Bill 434 contains the following changes to the JEDD laws:

- Eliminates or shortens the moratorium on annexations in JEDDs;
- Allows noncontiguous subdivisions to create JEDDs under statewide provisions;

- Permits a municipal corporation to issue industrial development bonds for projects located in any kind of JEDD;
- Eliminates certain public hearings and publication notices in the formation of a JEDD;
- Provides procedures for expanding and contracting the area within a JEDD;
- Requires all municipal corporations to extend existing income tax credits to income taxes paid to any kind of JEDD;
- Permits a subdivision participating in a JEDD to grant enterprise zone property tax exemptions with the consent of the other participating parties;
- Provides that tax increment financing-type tax exemptions continue even if the property is detached by the municipal corporation if it had created the JEDD under the restricted procedures;
- Permits municipal corporations and townships creating a JEDD to share property tax revenue;
- Clarifies that a municipal corporation that consents to but does not grant an enterprise zone tax exemption in any kind of JEDD does not have to pay compensation to a school district;
- Requires one of the contracting parties to file a copy of certain documents with the Director of Development; and
- Requires each JEDD participant (statewide provisions) to give notice to property and business owners that they are located within the JEDD area.

Program Goals

The purpose of creating a Joint Economic Development District is to facilitate the creation or preservation of jobs in a specific geographic area with the ultimate goal of improving the welfare of Ohioans whether or not they live or work in the JEDD. The 1995 changes to the JEDD laws cited the additional goal of improving relations and cooperation between cities and townships.

The intent of forming a JEDD is to create a win-win situation in which both the township and the city benefit. Typically, the township provides large tracts of undeveloped land for the district and the city provides the infrastructure improvements needed to make the land desirable for development, thus spurring economic growth and job creation.

An income tax can be levied in the JEDD to help finance its improvements and to provide a source of revenue that previously was not available to the city or the township.

The three sets of provisions that apply to the original JEDDs (those formed under O.R.C. Sections 715.70 and 715.71) and the newer statewide JEDDs (those formed under O.R.C. Sections 715.72 and 715.81) are summarized in Table 27:

Table 27
Joint Economic Development District Provisions

Topic	ORC 715.70	ORC 715.71	ORC 715.72 & 715.81
Area Designation	1. Charter County 2. Municipal airport area in an unincorporated area 3. Transportation Improvement District	1. Charter County 2. Municipal airport area in an unincorporated area 3. Transportation Improvement District	Cities and townships that are located in the same or in adjacent counties.
JEDD Area	2,000 acre minimum, continuous boundary without exclusions	No size limit, one or more non-contiguous areas permitted	No size limit, one or more non-contiguous areas permitted
JEDD Area Population	No Restrictions	No Restrictions	Restricted - residential population excluded
Electorate Review	A. Possible referendum by township electorate B. Must go to electors if Board acts on an income tax within the first 180 days after first meeting C. Not required if the Board acts on an income tax after 180 days but subject to township referendum. Citizens have 30 days after Board action to file for referendum	Must go to township electorate for JEDD contract approval. No referendum specified.	Must go to township electorate for JEDD contract approval. No referendum specified.
Income Tax Levy	Up to the highest rate of participating municipalities, except if no residents-maximum rate is capped at 1%. Can tax businesses, workers, and residents. Must grant same credit as the city administering the income tax.	Up to the highest rate of participating municipalities. Can tax businesses, workers, and residents. Must grant the same credit as the city administering the income tax.	Up to the highest rate of participating municipalities. Can only tax businesses and workers since district cannot include residential areas. Must grant same credit for people working in the district that are granted residents working in municipal corporations.

Table 27 Continued
Joint Economic Development District Provisions

Topic	ORC 715.70	ORC 715.71	ORC 715.72 and 715.81
Board Composition	Must be comprised of members of the legislative bodies and the elected officers of the contracting parties with at least two members from each of the contracting parties	Must be comprised of members of the legislative bodies and the elected officers of the contracting parties with at least two members from each of the contracting parties	A five member board must be comprised of the following representatives: (1) a city official (2) a township official (3) a business owner located within the JEDD (4) a person working within the JEDD (5) a person selected by the other four members who serves as chair
Powers to Grant Tax Abatements within the JEDD	No political subdivision may authorize or grant a tax abatement (CRCL, CRA, EZ) that was not filed, pending, or approved prior to the effective date of the JEDD contract.	No political subdivision may authorize or grant a tax abatement (CRCL, CRA, EZ) that was not filed, pending, or approved prior to the effective date of the JEDD contract.	A contracting party may grant a tax exemption under the Enterprise Zone law on any property located within the JEDD with the consent of the other contracting parties.

Moratoria on annexation proceedings also vary according to provision. Under Section 715.70 proceedings proposing the annexation to or merger or consolidation with a municipal corporation of any unincorporated territory within a JEDD are prohibited for three years after the JEDD contract. The contract may then prohibit any such annexation proceedings beyond the three-year period. The annexation provisions under Section 715.71 are similar except the moratorium does not apply to contracting municipalities. The contract may prohibit annexation proceedings by a contracting municipality but may not restrict annexations otherwise beyond the three-year period. Sections 715.72 and 715.81 also contain a three-year moratorium and allow the JEDD contract to prohibit annexations beyond the three-year period by contracting municipalities only.

Joint Economic Development Districts in Ohio

No official list of JEDDs exists since there currently are no reporting or filing requirements by the Ohio Department of Development. The following list of JEDDs was derived from discussions with JEDD officials in Akron and Springfield and may not be inclusive:

Akron/Summit County

Participating Townships:	Copley, Coventry, and Springfield
Effective Date:	January 1995
ORC Sections:	715.70 and 715.71
JEDD Income Tax:	2% with full credit allowed by Akron
Services Provided:	Water and sewer services

Alliance-Lexington Township JEDD

Participating Townships:	Lexington
Effective Date:	In process of formation
ORC Sections:	715.72-715.81
JEDD Income Tax:	
Services Provided:	

Ashtabula County-City of Geneva

Participating Townships:	Harpersfield
Effective Date:	August 1996
ORC Sections:	715.72-715.81
JEDD Income Tax:	1% with full credit from Geneva
Services Provided:	Sewer services

Hamilton/Butler County (Hamilton Indian Springs JEDD)

Participating Townships:	
Effective Date:	1997
ORC Sections:	715.72-715.81
JEDD Income Tax:	2% with full credit from Hamilton
Services Provided:	

Navarre-Perry Township JEDD

Participating Townships:	Perry
Effective Date:	1997
ORC Sections:	715.72-715.81
JEDD Income Tax:	1.5% with full credit from Navarre
Services Provided:	Road improvements

Springfield-Beckley Municipal Airport JEDD

Participating Townships:	Green
Effective Date:	1993
ORC Sections:	715.72-715.81
JEDD Income Tax:	1% with full credit from Springfield
Services Provided:	Road reconstruction

Major Findings

Contacts were interviewed for four of the JEDDs, two formed under the original statutes and two formed under the new laws. The primary benefits cited were that the districts improve relations and cooperation between cities and townships by providing a mechanism for working together to accomplish a mutual goal that benefits all parties. This, in effect, could reduce the incentive to annex.

There is inadequate information and time in the analysis to determine how well JEDDs have encouraged economic growth and job creation. The only JEDDs in existence long enough to have experienced business development are the Akron and Springfield districts. Springfield has had a hard time marketing property within the JEDD to developers because the land must be owned by the city and leased to developers, a unique aspect of the municipal airport provisions under which it was formed. In Akron, the number of businesses located within the JEDD has increased from 876 in 1995 to 1,332 in 1998, but an undetermined number of the additions are due to an expansion in the district' territory and to improved record-keeping.

The primary downside to the JEDDs has been the difficulties involved in collecting the income tax and continued litigation by the property owners within the district. The Springfield contact indicated that while surrounding townships are interested in forming JEDDs to reduce the threat of annexation, the city does not want to form a JEDD under the new provisions because their representation on the JEDD board would not be commensurate with the investment of time and money that would be required.

Conclusions

The State of Ohio should encourage greater use of JEDDs as economic development tools because of their cooperative benefits, and the ability to increase the leverage of local government resources and revenues for economic development. The tool is currently under-utilized in the study team's opinion. We believe this tool could help overcome some of the unproductive competition among neighboring jurisdictions in the same economic region. The program should be redesigned in light of the study recommendations made in Chapter 20. Local governments should be encouraged by the State of Ohio to adopt the new performance measurement system recommended by the CSU team.

SECTION III-B: STATE TAX CREDIT PROGRAMS

CHAPTER 10 - OHIO JOB CREATION TAX CREDIT PROGRAM ANALYSIS

Purpose

This chapter discusses the economic impact of the Job Creation Tax Credit Authority on the Ohio economy. This analysis examines agreements made during the 1993-1997 time period. The direct, indirect, and total impacts of the program are estimated on Ohio employment, gross state product, and personal income.

Credits

This chapter is based upon two major sources of analytic input. The first is an in-depth program analysis report prepared by Ziona Austrian and Adina Swirski of the CSU Urban Center. JEK Analytics, an economic consulting firm in Greater Cleveland, prepared the data tables from the REMI model used in the study. The second input comes from TAIM Modeling conducted by Peter Fisher and Alan Peters. Both sources form the basis for our conclusions and recommendations about the program's performance, impact, and value.

Methodology

The REMI Input-Output Model was used to analyze the economic impact of the JCTC Program on the Ohio economy. The model is considered by experts to be one of the best available for economic development analysis. The reader is referred to the full report for detailed information about REMI. A second analysis was conducted using the TAIM Model. This model in described in detail in the detailed program analysis of Ohio's tax credit programs.

Program Overview

The Job Creation Tax Credit Program (JCTC), which was implemented in January 1993, as part of Jobs Bill I offers a refundable tax credit against the Ohio corporate franchise or income tax for businesses that create jobs in Ohio. The credit is measured as a percentage of the state income tax revenue withheld by a business for new full-time employees. To be eligible, businesses must meet certain requirements, including a wage threshold of 150% of the federal minimum wage and a minimum commitment of 25 new full-time jobs.[46] Participating businesses enter into a legally binding agreement with the Ohio Tax Credit Authority, which was created to oversee the program. The Authority determines the tax credit percentage, with a maximum of 75%, and the term not to exceed 10 years. Businesses must also commit to invest in new fixed assets in Ohio, such as land, building, machinery and equipment, and infrastructure. In addition, businesses may receive higher credits for retaining jobs and for committing to employ a relatively high percentage of disadvantaged or minority employees.

JCTC has also been amended to generally prohibit tax credit recipients from relocating employment from elsewhere in Ohio and specifically excludes interstate relocations of employees or employment positions from being counted as new employees for the credit. The program also excludes point of final sale retail facilities. In addition, businesses are required to maintain operations at the project site for twice the term of the agreement.

REMI Analysis Major Findings

Major findings are divided into two areas: the direct impact of the JCTC and the total impact of the program.[47]

Direct Impact:

- Between 1993 and 1997, the program has resulted in 543 active projects. Participating firms have committed to create 60,837 jobs with an average hourly wage rate of $12.07 and have committed to invest $7 billion in fixed assets.

- Ohio businesses that participated in the JCTC program will receive an estimated total tax credit of $301 million from projects that began in 1993-1997.

- Among Ohio's counties, Franklin County had the largest number of committed new jobs (9,942), accounting for 16%. While Cuyahoga County had the most projects (51), it accounted for only 9% of new jobs (5,720).

- The manufacturing sector comprised the largest number of projects, with 72%. However, it accounted for only 58% of committed new job creation. In addition, manufacturing accounted for 73% of new investment dollars committed.

- The fabricated metals industry accounted for the largest number of projects (56), followed by industrial machinery and equipment, with 49 projects. However, while ranking 4th in the number of projects, the transportation equipment industry committed to create the most jobs (5,488). Motor vehicles and parts accounted for the majority of these jobs. Business services ranked second, after the transportation equipment industry, with 4,427 jobs.

- The new jobs created by JCTC are estimated to generate state income tax withholdings of $445 million over the term of the projects. After deducting the estimated $301 million in tax credits, the program is projected to generate a net total of $144 million in state income tax revenue.

Total Impact:

- Methodology: The REMI model was used to measure the total economic impact (both benefits and costs) of the Job Creation Tax Credit Program on the Ohio economy. The REMI model was chosen because of its structure and reputation. Economic impact is estimated by comparing a baseline REMI forecast of the Ohio economy with an alternative forecast that takes into account the JCTC. Three policy variables were changed to create the alternative forecast: increase in jobs by industry, reduction in non-wage labor cost by industry, and reduction in government spending.

- The REMI model estimates the impact of the JCTC program based on the assumption that the program exists through December 31, 2000.

- The REMI model predicts that total employment is projected to increase (as a result of the JCTC program) by more than 29,000 jobs in 1996, by almost 68,000 in 1997, by over 97,000 in 1998, by over 125,000 jobs in 1999, and by nearly 153,000 jobs in the year 2000. Table 28 shows that from 2001, employment is projected to continue to increase but at decreasing levels, from 147,000 in 2001 to 11,000 jobs in 2007. Employment is projected to decline in the following three years (2008-2010) and then grow slightly in 2011-2012. These projected employment gains that are attributed to the JCTC account for 0.5% of Ohio's 1996 total employment, 2.4% of Ohio's total employment in the year 2000, and 1.8 % of Ohio's jobs by 2005.

- Ohio's Gross State Product (GSP), which measures the value of all goods and services produced in Ohio, was projected to increase by $1.5 billion in 1996 due to the JCTC program. Ohio's GSP is projected to increase by $5 billion in 1998, $8.2 billion in 2000, around $7.5 billion during the years 2002-2005, and by only $1 billion in 2007. Ohio's GSP is projected to slightly decline in the next five years through 2011. The additional GSP attributed to the JCTC program accounts for 0.4% of Ohio's GSP in 1996, 2.7% in the year 2000, and 2.3% of Ohio GSP in 2005.

- Personal income and disposable personal income are showing similar trends. Personal income is projected to increase from $1 billion in 1996 to $6.6 billion in the year 2000. For the next five years, 2001-2005, personal income is projected to increase by around $7 billion a year. Personal income is projected to increase by lower amounts afterwards and then stabilize or show small declines.

- Manufacturing jobs account for between 27% and 28% of the total new jobs between 1996 and 2006. Within non-manufacturing, services added the most jobs in each of the years, followed by the retail and finance industries.

- Due to the structure of REMI outputs, total tax impacts of the program could not be analyzed. Because the REMI model does not currently disaggregate federal, state, and local impacts, total state tax impacts could not be estimated. However, as previously mentioned, the direct tax impact of the program was analyzed.

Table 28
JCTC Total Economic Impact

Measure	1996	1997	1998	1999	2000	2001
Total Employment	29,330	67,550	97,130	125,100	152,700	147,300
Private non-farm employment	29,020	66,330	94,570	121,000	146,700	139,800
Gross State Product (billions of $92)	$1.50	$3.41	$4.99	$6.56	$8.18	$8.10
Personal income (billions of Nominal $)	$0.98	$2.43	$3.77	$5.14	$6.59	$6.84
Disposable personal income (billions of nominal $)	$0.81	$2.01	$3.13	$4.28	$5.49	$5.71

Measure	2002	2003	2004	2005	2006	2007
Total Employment	140,100	131,900	125,200	121,500	68,530	10,870
Private non-farm employment	131,300	122,300	114,900	110,800	58,150	1,836
Gross State Product (billions of $92)	$7.91	$7.63	$7.41	$7.35	$4.19	$0.87
Personal income (billions of Nominal $)	$6.90	$6.83	$6.76	$6.79	$4.53	$1.69
Disposable personal income (billions of nominal $)	$5.78	$5.74	$5.69	$5.73	$3.87	$1.54

Measure	2008	2009	2010	2011	2012	
Total Employment	-16,400	-10,200	-3,980	1,428	5,751	
Private non-farm employment	-23,700	-16,000	-8,880	-2,690	2,241	
Gross State Product (billions of $92)	-$0.86	-$0.57	-$0.27	$0.00	$0.21	
Personal income (billions of Nominal $)	-$0.02	-$0.11	-$0.03	$0.11	$0.27	
Disposable personal income (billions of nominal $)	$0.11	$0.01	$0.06	$0.17	$0.29	

Source: The Urban Center at Cleveland State University and JEK Analytics

In summary, the JCTC economic impact is significant in terms of additional jobs and output. Moreover, public cost for a new job created directly under the JCTC program in 1996 and 1997 was, on average, $5,385. Public cost per job created directly and indirectly from the JCTC program was only $2,075 in 1996 and $1,334 in 1997.

Conclusions

- **Program Quality and Organization:** The JCTC is well managed within ODOD. Staff quality is very good, displaying a high level of program knowledge. Staff was very cooperative during our investigation of the program. The JCTC Authority is a valuable asset to the program by ensuring program accountability and integrity.

- **Local Perceptions:** The program is viewed very favorably by local economic development organizations and local government officials. In most cases, local governments are co-investing in the development projects, which serves to lower the state's investment share.

- **Overall Economic Impact:** The JCTC program has a significant positive impact on Ohio's economy as measured in terms of employment, gross state product, and personal income. The program is one of the State's top performers in providing a return on investment of state tax dollars.

- **State Expenditures on Program**: Public cost per JCTC job is very low in comparison to other economic development incentive programs. The average public cost per job created directly by participating companies in 1996 and 1997 was $5,385. The public cost of a job created as a result of the JCTC program (including both direct and indirect job impacts) was about $2,075 in 1996 and $1,334 in 1997.

- **Program Monitoring**: The Ohio Department of Development collects a comprehensive amount of data on the program that is very useful for continued monitoring and evaluation of the JCTC program. In general, this monitoring process is effective.

- **Manufacturing Industry Impacts**: Although the JCTC program has been utilized primarily by manufacturing companies, it is also available to other industries. Only 58% of the new JCTC jobs were created by participating manufacturers, although manufacturing companies accounted for over 70% of the projects. Non-manufacturing companies accounted for 28% of all projects and 42% of the jobs created by participating firms.

- **Non-Manufacturing Industry Impacts**: Some non-manufacturing industries, such as business services, which were major users of the JCTC program, were also the fastest growing industries in Ohio. In contrast, the largest manufacturing users of the program, in terms of job creation, experienced a decline in employment in Ohio. The question might then be asked: why are incentives being granted to non-manufacturing industries that are already experiencing high job growth in Ohio?

Recommendations

- **Continue Program:** We strongly recommend the continuation of the JCTC program. The program has a strong positive impact on Ohio's economy and the public cost per job is very low.

- **Maintain High Standards and Criteria:** The program administrators should continue to be strict in determining eligibility and not provide tax credits for companies that relocate employees from one Ohio location to another.

- **Strengthen Data Collection:** In order to improve future evaluation and more fully utilize the REMI model, more specific data should be collected on the type of fixed asset investments that are made by participants. Moreover, evaluation research quality data should be collected and maintained in the future.

- **High Quality Job Credit:** The state should investigate the feasibility of providing additional tax credits to employers creating higher quality jobs. This credit should be higher than that given to other types of jobs.

- **Re-Format Program in New Model:** The program, like others operated by the State of Ohio, should adopt the proposed future performance measure system and other recommendations described in Chapter 20. These measures will enable the State of Ohio to assess the broader impacts of the program on different areas, industries, and population groups in Ohio, and manage the program in line with the state's future economic development goals.

CHAPTER 11 - OHIO MACHINERY AND EQUIPMENT TAX CREDIT PROGRAM

Purpose

This chapter discusses the results of a REMI Model analysis of Ohio's M&E Tax Credit Program and identifies its impacts on the Ohio economy.

Credits

The information contained in this chapter is based upon a detailed program analysis report prepared by Ziona Austrian and Adina Swirski from the CSU Urban Center. Jim Robey and Jack Kleinheiz from JEK Analytics produced the input-output tables from the REMI model that were used to analyze program effects.

Methodology

The approach to this program assessment strongly resembles the methodology followed in the analysis of the JCTC Program, discussed in the previous chapter.

Program Overview

This chapter presents an analysis of the Ohio Manufacturing Machinery and Equipment Investment Tax Credit and its impact on Ohio's economy. As a background, it also compares trends in Ohio's new capital expenditures against that of the United States, as a whole.

The Ohio Manufacturing Machinery and Equipment Investment Tax Credit (hereafter referred to as the Manufacturing Investment Program) offers a non-refundable corporate franchise or state income tax credit for Ohio manufacturers that purchase new machinery and equipment between July 1, 1995 and December 31, 2000. Eligible new investment must exceed the company's annual average investment in machinery and equipment in the same county for 1992-94. The tax credit is equal to 7.5% of the eligible investment or 13.5% if the eligible investment occurs in areas such as inner cities, distressed areas, labor surplus areas, and situational distressed areas.

Major Findings

Major findings are divided into three areas: manufacturing new capital expenditures in the U.S and Ohio, direct impact of the Manufacturing Investment Program, and total impact of the program.

Manufacturers' New Capital Expenditures in Ohio and the U.S.

- New capital expenditures by manufacturers in both Ohio and the U.S. grew by the largest percent between 1994 and 1995 comparing annual trends between 1992 and 1996. New capital expenditures grew by 13.9% in the U.S. and by 28.8% in Ohio. The Manufacturing Investment Program began in July of 1995.

- In contrast, Ohio manufacturers' new capital expenditures fell by 5.7% between 1995 and 1996, while that of the U.S. rose by 8.2%. This is counterintuitive to the expectations of increased capital expenditures due to the tax credit program. However, the 1996 decrease could have been due to over expansion in 1995. The level of new expenditures in 1996 is still 21% over the 1994 level.

Direct Impact:

- In the first two years of the program (mid 1995 to mid 1997), 1,758 notices of intent to claim the credit were filed. Participating firms spent $3.5 billion on new machinery and equipment, of which $2.4 billion was eligible for the tax credit.

- Ohio manufacturers that participated in the Manufacturing Investment Program received a total tax credit of $232 million over seven years, or $33 million annually.

- The regions with major urban areas have the most claims because they have the highest number of manufacturers. The regions that include Cleveland, Cincinnati, and Columbus account for 59 % for all claims and 53 % of new investments.

- Ohio's Northeast Region has the highest number of notices for tax credit, accounting for 39%. It also accounts for one-fourth of new investments. This may be due to the large size of the Northeast Region, whose share of Ohio's manufacturing establishments is 43%.

- The largest industry group to take advantage of the tax credit was fabricated metals, with 22% of notices, followed by non-electric machinery with 12% of notices. However, in terms of new investments, the fabricated metals industry, with $580 million, is closely followed by the primary metal industry with $560 million of new investments in machinery and equipment.

- The number of tax credit notices in distressed areas, as defined by the program guidelines, accounts for 1/3 of the notices and new investments, while accounting for ½ of the tax credits. This is a direct result of the higher tax credit rate of 13.5% in distressed areas compared with 7.5% in non-distressed areas.

Total Impact:

- Methodology: the REMI model was used to measure the total economic impact (both benefits and costs) of the Manufacturing Investment Program on the Ohio economy. The REMI model was chosen because of its structure and reputation. Economic impact is estimated by comparing a baseline REMI forecast of the Ohio economy with an alternative forecast that takes into account the Manufacturing Investment Program. Two policy variables were changed to create the alternative forecast: reduction in capital costs and reduction in government spending.

- The REMI model estimates the impact of the Manufacturing Investment Program based on the assumption that the program exists for the time period July 1, 1995 through December 31, 2000.

- The REMI model predicts that total employment as a result of the tax credit will increase by over 1,000 employees in both 1996 and 1997. It then predicts smaller employment gains in 1998-2000, employment losses in 2001-2006 and small increases afterwards.

- Private non-farm employment that excludes farm and government employment is projected to increase in most years. Government employment is projected to decline in all years because of the change introduced into the REMI model of lower government spending.

- Manufacturing jobs are projected to increase until the year 2005, with a larger share of the jobs in durable manufacturing. The share of all projected additional employment that is accounted for by manufacturing jobs is larger than their share of total employment. This is a direct result of the stimulus of the Manufacturing Investment Program.

- Ohio's Gross State Product (GSP), (measuring the value of all goods and services produced in Ohio in 1992 dollars) is projected to increase between $65 million and $91 million each year during 1996-2000. It is projected to increase only slightly during the following five years, and then shows a very moderate rise. GSP is projected to increase in all years, except at different levels in each.

- Personal income and disposable income also show small positive effects in the first 6 years and then show a small negative impact after the year 2001. These effects are due to changes in employment.

- Due to the structure of REMI outputs, tax impacts of the program could not be analyzed. Because the REMI model does not currently disaggregate federal, state, and local tax impacts, state tax impacts could not be estimated.

Table 29
M&E Total Economic Impact

Measure	1996	1997	1998	1999	2000
Total Employment	1,067	1,034	858	577	249
Private non-farm employment	1,381	1,639	1,724	1,724	1,647
Gross State Product (mill of $92)	$65.6	$81.9	$89.4	$90.8	$88.3
Personal income (mill of nominal $)	$35.4	$39.9	$38.7	$31.7	$20.9
Disposable personal income (mill of nominal $)	$29.2	$33.1	$32.5	$26.8	$17.9

Measure	2001	2002	2003	2004	2005
Total Employment	-1,041	-1,365	-1,083	-765	-440
Private non-farm employment	333	-8	-12	27	84
Gross State Product (mill of $92)	$21.7	$0.2	$2.3	$7.6	$4.3
Personal income (mill of Nominal $)	$28.6	-$48.5	-$46.1	-$38.8	-$28.1
Disposable personal income (mill of nominal $)	$22.9	$39.5	$37.9	$32.2	-$23.5

Measure	2006	2007	2008	2009	2010
Total Employment	-116	188	864	49	-55
Private non-farm employment	152	212	106	23	-38
Gross State Product (mill of $92)	$22.5	$20.6	$23.6	$17.8	$13.1
Personal income (mill of nominal $)	-$14.7	-$0.2	-$2.1	-$4.7	-$7.1
Disposable personal income (mill of nominal $)	-$12.5	-$0.5	-$2.1	-$4.2	-$6.1

Conclusions

- **Program Administrative Quality**: In general, we found the general administration of the program to be quite adequate. ODOD staff was very cooperative in providing available baseline data needed for this analysis.

- **Program Utilization**: The program has been widely used by firms making capital investments in Ohio. The program is considered beneficial by firms.

- **Overall Impact on Ohio Economy**: The Manufacturing Tax Credit Investment Program has a relatively small positive impact on Ohio's economy as measured in terms of jobs, gross state product, and personal income. By comparison, the JCTC Program has a much greater impact.

- **ROI Performance Assessment**: Because no specific return-on-investment expectations currently guide the program, it is not possible to determine whether the program's performance is to be considered positive or negative.

- **Employment Performance Assessment**: Using employment gains of 1,067 in 1996 as projected by the REMI and the total annual average tax credits of $33 million, this suggests a state government cost per job of $31,000 for 1996.

Recommendations

- **The Machinery and Equipment Tax Credit program**: This program should be extended to December 31, 2002 provided that the program is redesigned to reflect the requirements of the State Incentive Management (SIMS) model, the Comprehensive State Development Budget, the new 5-layer performance measures system, and the new policy justification framework. Once these changes have been made, the program should be submitted to the Legislature to be re-authorized for a 5-year period.

- **Continue the Program but Re-design it with New Performance Measures:** Monitoring data requirements for the program should be expanded to include the new measures. More current data should be collected in the future on the average investment for each company using the program. At present, average investment is calculated based on expenditures on machinery and equipment in 1992-1994. This was a good decision when the program was initiated in 1995. Recently, the program was extended from the end of 1998 to the end of the year 2000 without adjusting the years used to calculate average investment.

- **Improve Data Collection Procedures**: We recognize that the data is self-reported by the companies that receive tax credits. However, better employment and financial investment data would be very beneficial for future evaluations. Greater future effort should be made by ODOD to confirm the self-reported data. At present, the collected data do not lend themselves to effective evaluation research.

SECTION III-C: STATE BUSINESS LOAN PROGRAMS

CHAPTER 12 - THE DIRECT LOAN (166) AND THE REGIONAL 166 PROGRAM

Purpose

This chapter reviews the performance of the Direct Loan (166) and The Regional 166 business loan programs operated by the State of Ohio. These programs are considered to be discretionary incentive programs, which are most often negotiated with the company directly.

Credits

The in-depth analyses prepared on these programs were developed by several CSU staff members under the supervision of Kevin O'Brien, Director of the Urban Center's State and Local Government Initiatives Program.

Methodology

By and large, the analyses discussed in these chapters considered only the direct impacts on state and local government. Data availability and the scale of many of the programs did not warrant economic impact analysis treatment. These programs were assessed with the TAIM model though, which provides insight into how much competitive advantage these programs provide to companies using them. The TAIM analysis of these programs is contained in Chapter 5 of the report.

Program Overview

The Direct Loan Program Fund was first authorized in 1965 (O.R.C. 122.54), and was amended in 1983 and 1987. This legislation created the direct loan fund program within the state treasury to consist of money appropriated for the purpose of making loans authorized under O.R.C. 122.43 and O.R.C. 122.45. The fund includes money from the authorized proceeds of the sale of any issue of its revenue bonds, all grants, gifts, and contributions made to the director of development for such purposes, and all other money designated by the director for the purpose of make loans.

First authorized in 1965, O.R.C. 122.43 allows the director of development to lend certain funds in order to procure or improve real or personal property for the establishment, location, or expansion of industrial, distribution, commercial, or research facilities. This legislation was amended in 1979 and 1983.

Also authorized in 1965 and amended in 1983 was O.R.C. 122.45 which allows the director of development to lend funds to political subdivisions of the state for the purpose

of expediting the creation, location, or expansion of industrial, distribution, commercial, or research facilities in the state for infrastructure improvements.

The 166 Loan Program was created in 1980. It was amended in 1982, 1983, 1987, 1995, and 1996. The Direct Loan Program provides fixed rate long-term loans to industrial projects for land and building acquisition, expansion or renovation, and equipment purchase. The program funds up to 30% of total eligible fixed costs, with a $1 million maximum and a $350,000 minimum. In distressed areas of the state, preferential rates and terms are available. For smaller projects, the Regional 166 Loan Program provides loans of up to 40%, not to exceed $350,000. In addition, Chapter 166 legislation created the facilities establishment fund within the state treasury to consist of proceeds from the issuance of obligations.

The 166 Loan Program is capitalized by the loan guarantee fund and from the gross profits on the sale of liquor in the state as detailed in O.R.C. Sections 166.06, 166.08 and 166.11. The loan guarantee fund is a special revenue fund and a trust fund, but does not receive any revenue raised by taxation.

In 1995, the program was amended to specify that eligible projects do not include solely point of final purchase retail facilities. However, warehouse and catalogue distribution facilities are eligible. Also, limitations on the percentage and maximum amount of a loan do not apply to loans made with proceeds from the issuance and sale of project financing obligations.

Program Guidelines

166 Direct Loan Program

The 166 Direct Loan Program offers loans for a maximum of 30% of a project's fixed assets or $1 million. The minimum amount loaned is $350,000. The Director of Development possesses the authority to grant a higher loan amount. The loan requires a private lender and 10% owner cash equity. The program is considered a take-out financing project. The current loan rate is fixed at 5% plus a 1/4% annual servicing fee for up to 15 years for real estate and up to ten years for machinery and equipment. Several types of collateral may be used. They included the owner's personal guarantee, a corporate guarantee, a shared collateral position with a bank, a key life insurance policy, or other additional covenants to be negotiated. The program includes a $1,500 non-refundable application fee, account fees, if any apply, and a 2% non-refundable commitment fee.

The loan acceptor is expected to invest $15,000 per job created or per job retained. These jobs must be created within three years after project completion. The company must meet certain eligibility requirements that include acquiring land and buildings, implementing new construction, renovating existing buildings, acquiring new and/or new machinery and equipment, and incorporating project-related soft costs. If the company believes that it fulfills these criteria, then it must submit a pre-application. The loan package is presented to the Development Financing Advisory Board and the State

Controlling Board. The Ohio Department of Development issues the commitment letter to allow the project to begin.

166 Regional Loan Program

The 166 Regional Loan Program possesses many of the same characteristics as the 166 Direct Loan Program, but on a regional level. The program targets state financial assistance to industrial companies for smaller projects. Eleven regional agencies, most of which are Certified Development Companies, administer the program.

The regional program scales down the maximum and minimum loan amounts to a maximum of $350,000 or an amount determined by the locality. This amount may be calculated at 30% to 40% of the company's eligible costs. The financing of the loan requires a private lender and 10% of the owner's cash as equity just as in the Direct Loan Program. The rate, however, is negotiable and will not exceed two-thirds of the prime rate. The term of the loan is equal to or less than the private lender. The term limits are up to 10 years for machinery and equipment and up to 15 years for real estate as in the Direct Loan Program. The collateral and security requirements also are the same as in the Direct Loan Program. The fees are determined locally.

Just as in the case of the Direct Loan Program, the company is responsible for an investment of $15,000 per job created or retained. The eligibility requirements of land, buildings, equipment, and soft costs are also the same. The company must receive local approval prior to presenting its application to the Development Financing Advisory Board. The State Controlling Board then gives its approval and the local agency issues the commitment letter.

Financial Information

Information regarding the 166 Direct Loan Program and the Regional Loan Program was only available for fiscal years 1993-1996, and job creation and retention information was only available for fiscal year 1993.[48] The total amount of loans given during this four year period was $247,743,161 as reported in 1997 dollars. There were 143 projects that took place in 46 counties during this time period. Cuyahoga County received the greatest amount in loans ($41,661,116) and Vinton County received the least ($100,101). Table 30 shows the amount in loan investments, the average dollar amount per investment, the total number of jobs created/retained/trained (1993 only), and the number of projects per county during the four-year period.

Table 30
Investments and Jobs by Ohio County, 1993-1996 for the 166 Direct Loan Program

County	Loan Investments (1997 Dollars)	Average $ in Investments per Project	Jobs Created or Retained	Number of Projects
Allen	$2,931,973	$732,993	0	4
Ashland	$1,290,381	$645,191	0	2
Ashtabula	$6,712,592	$1,118,765	588	6
Athens	$873,595	$873,595	0	1
Belmont	$2,222,713	$2,222,713	0	1
Butler	$304,648	$304,648	0	1
Clark	$838,860	$838,860	0	1
Clermont	$11,139,813	$5,569,907	0	2
Columbiana	$2,128,979	$1,064,490	685	2
Cuyahoga	$41,661,116	$1,487,897	492	28
Darke	$4,092,000	$4,092,000	0	1
Defiance	$666,814	$666,814	226	1
Erie	$7,780,115	$1,945,029	560	4
Fairfield	$5,009,769	$2,504,885	0	2
Franklin	$3,232,680	$1,077,560	0	3
Fulton	$16,087,469	$5,362,490	410	3
Guernsey	$1,083,193	$1,083,193	0	1
Hamilton	$3,087,619	$617,524	0	5
Hancock	$5,268,450	$5,268,450	0	1
Highland	$204,600	$204,600	0	1
Huron	$584,924	$584,924	0	1
Jackson	$7,624,153	$3,812,076	0	2
Lake	$1,113,273	$556,636	0	2
Lawrence	$2,352,900	$2,352,900	0	1
Logan	$1,053,690	$1,053,690	0	1
Lucas	$18,312,518	$1,664,774	427	11
Mahoning	$8,972,325	$1,495,388	114	6
Medina	$1,553,925	$517,975	0	3
Mercer	$3,984,002	$1,992,001	0	2
Montgomery	$5,598,042	$1,399,510	100	4
Ottawa	$5,246,711	$2,623,356	0	2
Paulding	$1,227,600	$1,227,600	0	1
Putnam	$2,557,500	$2,557,500	0	1
Ross	$796,590	$796,590	0	1
Sandusky	$1,111,356	$1,111,356	0	1
Scioto	$15,597,984	$7,798,992	0	2
Seneca	$2,166,387	$2,166,387	0	1
Stark	$23,647,619	$1,819,048	695	13
Summit	$844,891	$844,891	0	1
Trumbull	$6,063,321	$3,031,661	0	2
Tuscarawas	$1,111,356	$1,111,356	0	1
Vinton	$100,101	$100,101	0	1
Warren	$8,625,782	$4,312,891	0	2
Washington	$665,081	$665,081	0	1
Wayne	$4,265,883	$853,177	0	5
Wood	$5,947,870	$1,189,574	390	5
Total	**$247,743,161**	**$1,768,161**	**4692**	**143**

The total amount of loans given by the Regional Loan Program during fiscal years 1993-1996 was $24,282,397 as reported in 1997 dollars. This total was approximately 1/10th of the 166 Direct Loan Program's total for this time period. There were 144 projects that took place in 32 counties. Hamilton County received the greatest amount in loans ($2,357,801) and Coshocton County received the least ($42,148). Table 31 shows the amount in loan investments, the average dollar amount per investment, total number of jobs created/retained/trained (1993 only), and the number of projects per county during the four-year period.

Table 31
Investments and Jobs by County, 1993-1996, Regional Loan Program

County	Loan Investments (1997 Dollars)	Average $ in Investments per Project	Jobs Created Retained, and/or Trained	Number of Projects
Allen	$80,018	$80,018	15	1
Clermont	$99,653	$99,653	0	1
Columbiana	$603,740	$201,247	4	3
Coshocton	$42,148	$42,148	0	1
Crawfprd	$317,435	$158,717	0	2
Cuyahoga	$1,927,512	$192,751	5	10
Defiance	$482,856	$241,248	0	2
Delaware	$574,689	$287,344	0	2
Franklin	$1,367,266	$124,297	0	11
Fulton	$231,812	$231,812	0	1
Geauga	$1,501,356	$500,452	7	3
Hamilton	$2,357,801	$124,095	37	19
Henry	$792,825	$264,275	0	3
Holmes	$210,738	$210,738	0	1
Jefferson	$216,639	$216,639	0	1
Licking	$774,759	$193,690	0	4
Lorain	$825,461	$137,577	0	6
Lucas	$1,345,730	$122,339	0	11
Mahoning	$1,522,370	$152,237	20	10
Medina	$214,830	$214,830	0	1
Miami	$677,957	$135,591	0	5
Montgomery	$1,944,903	$162,075	21	12

Table 31 Continued
Investments and Jobs by County, 1993-1996, Regional Loan Program

County	Loan Investments (1997 Dollars)	Average $ in Investments per Project	Jobs Created Retained, and/or Trained	Number of Projects
Pickaway	$54,593	$54,593	0	1
Portage	$188,325	$188,325	0	1
Richland	$444,618	$111,155	0	4
Stark	$794,991	$132,499	81	6
Summit	$2,007,514	$334,586	0	6
Trumbull	$1,840,939	$184,094	20	10
Warren	$210,738	$210,738	0	1
Washington	$62,239	$62,239	0	1
Wayne	$263,423	$263,423	0	1
Wood	$300,525	$100,175	0	3
Total	**$24,282,397**	**$176,557**	**210**	**144**

The 166 Direct Loan Program's investments vary from year to year with fiscal year 1993 reporting the lowest amount in loans ($53,038,928), but the highest number of projects (40) while fiscal year 1995 had the highest amount in loans ($74,208,226), but the lowest number of projects (31). Table 32 reports the loan investments, the average amount of investment per projects, the number of jobs created/retained/trained (FY 1993 only), and the number of projects for fiscal years 1993-1996.

Table 32
Investments and Jobs by Year for the 166 Direct Loan Program

Year	Loan Investments (1997 Dollars)	Average $ in Investments per Project	Jobs Created Retained, and/or Trained	Number of Projects
1993	$53,038,928	$1,325,973	4692	40
1994	$56,459,457	$1,710,893	0	33
1995	$74,208,226	$2,393,814	0	31
1996	$64,036,551	$1,641,963	0	39
Total	**$247,743,161**	**$1,768,161**	**4692**	**143**

The Regional Loan Program's investments also vary from year to year with fiscal year 1996 reporting the lowest amount in loans ($4,066,619) and the lowest number of projects (17) while fiscal year 1995 had the highest amount in loans ($10,250,625) and the highest number of projects (57). Table 33 reports the loan investments, the average amount of investment per projects, the number of jobs created/retained/trained (FY 1993 only), and the number of projects for fiscal years 1993 through 1996.

Table 33
Investments and Jobs by Year for the Regional Loan Program

Year	Loan Investments (1997 Dollars)	Average $ in Investments per Project	Jobs Created Retained, and/or Trained	Number of Projects
1993	$5,064,972	$158,280	210	32
1994	$4,898,184	$128,900	0	38
1995	$10,250,625	$179,836	0	57
1996	$4,066,619	$239,213	0	17
Total	**$24,282,397**	**$176,557**	**210**	**144**

Conclusions

The 166 Loan Program and its regional equivalent have been widely used in Ohio, and many companies have benefited from the programs. Our analysis of the program indicates that the program should be continued, but should meet the new management and performance requirements proposed by the study team. The State of Ohio should set more definitive goals to guide the program's use in the future.

We recommend that the program should be incorporated into the proposed new Ohio Buckeye State Development Fund. See the recommendations in Chapter 20 for the details of this recommendation.

CHAPTER 13 - OHIO ENTERPRISE BOND PROGRAM

Purpose

The Ohio Enterprise Bond Program was not one of the 12 programs included in the study scope, but the study team believed it was important to have a perspective of this program as part of its comprehensive study. It is included here as background only.

Credits

This analysis was conducted under the supervision of Kevin O'Brien of the CSU study team. State and Local Government Initiative Program staff completed the analysis.

Methodology

The analysis examined existing internal data available from the Ohio Department of Development and state financial sources. The data were summarized in tabular form for inclusion in the report.

Program Overview

The Office of Financial Incentives at the Ohio Department of Development incorporates the Ohio Enterprise Bond Fund into its fixed-asset lending program. The program, established in 1988 as an extension of ORC Chapter 166, provides long-term, fixed rate, tax-exempt and taxable bonds for financially healthy industrial and commercial facilities that are creating jobs in Ohio.

Program Guidelines

The program offers loans for a maximum of $10 million and a minimum of 2 million for a maximum of 20 years for real estate or 120% of the average life of the assets. The rate of the loan is fixed at the time of the sale of the bond. The loan requires the owner to have 10% cash equity, provide one-year debt service reserve, and a private lender may be necessary. Depending upon the percentage of participation in the program, the State of Ohio will own the assets or take a first mortgage position on them. Personal owner and corporate guarantees and key personal life insurance also are acceptable as collateral. The State reserves the right to require a letter of credit regarding the company. The program requires a $1,500 non-refundable application fee and a commitment fee of up to $20,000. The commitment fee is based on 2.5% to 3.5% of the closing costs. Finally, the company must pay an annual fee of 1/4% of the principal balance.

The company must demonstrate job creation and/or job retention, and have a public purpose. In addition, the company must be involved in the acquisition of land and buildings, new construction, the renovation of existing buildings, the acquisition of machinery and equipment, and project-related soft costs. If the company believes that it can fulfill these eligibility requirements, then the company must submit a pre-application.

The loan package is presented to the Development Financing Advisory Board and to the State Controlling Board for review. Upon the successful completion of the review process, the Ohio Department of Development issues a commitment letter.

Financial Information

Financial information regarding the Ohio Enterprise Bond Program was only available for fiscal years 1993-1996, and job creation/retention/training information was only available for fiscal year 1993.[49] The total amount of bonds issued during this four-year period was $98,794,390 as reported in 1997 dollars. There were 20 projects that took place in 12 counties during this time period. Franklin County received the greatest amount in bonds issued ($23,683,004) and Ashtabula County received the least ($3,411,864). Table 34 shows the amount in bond investments, the average dollar amount per investment, total number of jobs created/retained/trained (1993 only), and the number of projects per county

Table 34
Investments and Jobs by County during Fiscal Years 1993-1996

County	Bond Investments (1997 Dollars)	Average $ in Investments per Project	Jobs Created Retained, and/or Trained	Number of Projects
Ashtabula	$3,411,864	$3,411,864	341	1
Belmont	$10,536,900	$10,536,900	0	1
Carroll	$6,997,429	$6,997,429	0	1
Erie	$4,212,730	$2,106,365	0	2
Franklin	$23,683,004	$7,894,335	957	3
Guernsey	$3,698,452	$3,698,452	0	1
Jackson	$9,001,986	$9,001,986	361	1
Lucas	$13,669,683	$6,834,842	40	2
Montgomery	$3,439,648	$3,439,648	109	1
Seneca	$3,661,193	$3,661,193	0	1
Stark	$11,825,000	$2,956,250	0	4
Wood	$3,460,000	$1,730,000	8	2
Total	**$98,794,390**	**$4,394,795**	**1816**	**20**

The Ohio Enterprise Bond Programs' investments vary from year to year decreasing from fiscal year 1993 reporting the highest amount in bonds issued ($60,424,445) to fiscal year 1996 with the lowest reported amount ($3,324,750). Table 35 reports the bond investments, the average amount of investment per projects, the number of jobs created/retained/trained (FY 1993 only), and the number of projects for fiscal years 1993 through 1996.

Table 35
Investments and Jobs by Year

Year	Bond Investments (1997 Dollars)	Average $ in Investments per Project	Jobs Created Retained, and/or Trained	Number of Projects
1993	$60,424,445	$5,493,131	1816	11
1994	$16,334,555	$4,083,639	0	4
1995	$18,710,640	$4,677,660	0	4
1996	$3,324,750	$3,324,750	0	1
Total	**$98,794,390**	**$4,394,795**	**1816**	**20**

CHAPTER 14 - OHIO MINORITY BUSINESS LOAN PROGRAM

Purpose

This chapter presents an analysis of the Ohio Minority Business Loan Program, which is is currently a relatively small program in Ohio compared to other incentive programs, such as the tax credit programs and the Enterprise Zone Program. (Because of the current in-depth analysis of the program by a private consulting firm retained by the State of Ohio, this analysis is limited.)

Credits

The analysis underlying this chapter was conducted by CSU's State and Local Government Initiatives Program, under Kevin O'Brien's supervision.

Methodology

The analysis was limited to an analysis of available internal ODOD data.

Program Overview

The Minority Business Development (MBD) programs within the Ohio Department of Development (ODOD) were created under the Ohio Revised Code Section 122.92 in 1980. MBD programs assist in the growth and development of minority business enterprises as defined in O.R.C. 122.92 Sections (E)(1) and (2) which define such an enterprise as a business which is owned by at least 51% of persons of an economically disadvantaged group such as African-Americans, Native Americans, Hispanics and Asians.

Program Organization

The Minority Business Development programs within the Ohio Department of Development include the Minority Business Development Division and the Office of Minority Financial Incentives (OMFI) which is within the Economic Development Division. The individual programs are organized and staffed as follows:

Minority Business Development Division (12 positions):

Minority Contractors and Business Assistance Program
Office of Management and Technical Services
Office of Contract Procurement

Office of Minority Financial Incentives, Economic Development Division (5 positions):

Minority Business Bonding Program
Minority Direct Loan Program
Ohio Mini Loan Guarantee Program

These programs provide the following services to minority owned businesses:

Minority Contractors and Business Assistance Program
The objective of this program is to aid in the creation of a business environment sensitive to the particular needs of minority business enterprises and to assist in their growth and development. This objective will strengthen the minority business community and contribute to the state's general economic health.

The program provides outreach into the minority business community. Services provided are management, technical, financial, and contract procurement assistance as well as loan, grant and bond packaging activities.

The cities of Akron, Cincinnati, Cleveland, Columbus, Dayton, Lima, Portsmouth, Toledo and Youngstown have been designated Minority Contractors and Business Assistance Program sites by state legislation.

Office of Management and Technical Services
The objective of this program is to aid in the creation and expansion of minority-owned businesses. Staff works closely with the client to develop ideas for expanding a business and provides technical assistance on the essentials of bookkeeping systems, records and money management and matters involving marketing. Staff members compile and review loan packages, assist in capital formation, and act as liaisons with the banking community and government funding agencies.

The office also sponsors business education programs in conjunction with state-supported colleges and universities.

Office of Contract Procurement
This program assists minority companies in obtaining State of Ohio Certification as a Minority Business Enterprise and helps other state agencies and departments comply with minority contracting requirements. Information on local, state, federal and corporate purchasing programs which are available to minority businesses are provided by this office. The office also assists public and private purchasing managers in locating certified minority businesses.

This office coordinates the division's efforts in sponsoring local, regional, and statewide workshops, seminars, and conferences, which provide useful information to minority businesses.

Minority Business Bonding Program

The Office of Minority Financial Incentives provides surety bonds to minority contractors who otherwise cannot obtain bonding. Maximum bonds of $1million per business can be issued to qualifying organizations. The enterprise must meet the definition of 'minority business' as set forth in Section 122.71(E)(1) of the Ohio Revised Code and must be certified by the State Equal Opportunity Coordinator as a Minority Business Enterprise (MBE). The company must have been denied a bond by two surety companies within its current fiscal year and cannot have defaulted on a previous bond. The project must be economically viable and must benefit the people of the state by increasing opportunities for employment. Premiums cannot exceed 2% of the face value of the bond. Collateral may include personal guarantees against default of principals and persons substantially involved in business operations. The bond application and supporting documentation are presented to the Minority Development Financing Advisory Board which meets once a month.

Minority Direct Loan Program

The Office of Minority Financial Incentives also provides direct loans ranging in size from $45,000 to $450,000 to qualified businesses. These include on-going business concerns certified by the State Equal Opportunity Coordinator as an MBE. The proceeds can be used to purchase land, building, machinery, or renovations and leasehold improvements, and can provide up to 40% of the eligible cost of the project. The loan carries an interest rate of 4.5% and requires a $300 application fee and 1.5% commitment fee. Maximum term is 15 years for real estate and 10 years for machinery and equipment. The loan package is presented to the Minority Development Financing Advisory Board and must be approved by the State Controlling Board.

Ohio Mini Loan Guarantee Program

OMFI can guarantee from $4,500 to $45,000 on bank loans ranging in size from $10,000 to $100,000 for small businesses with fewer than 25 employees. Half of these funds are targeted for minority and women owned businesses. Qualifying projects include the purchase of fixed assets, land, building, machinery or equipment, renovations and lease improvements. The maximum term is 10 years and the interest rate is a blend of 5.5% for the guaranteed portion and the banks' prevailing interest rate for the unguaranteed portion. The state shares with the bank on all collateral securing the loan. Applications are reviewed and approved by the Minority Development Financing Advisory Board which meets once a month.

Financial Information

Data received from ODOD reflect total minority business grants and loans of $9.4 million for the years 1993 through 1996. The level has declined from $3.6 million in 1993 to $1.8 million in 1996. These figures are reflected in the Table 36 below:

Table 36
Minority Business Loans and Grants by Year

Year	Loans and Grants (1997 Dollars)	Projected Job Creation	Projected Job Retention	Number Grant/Loans
1993	$3,614,994	1,884	1,964	68
1994	$2,450,416	349	245	40
1995	$1,521,714	30	216	10
1996	$1,801,265	86	2	8
Total	**$9,388,388**	**2,349**	**2,427**	**126**

The types of loans and grants provided by the minority business programs include the aforementioned direct loans and mini-loans as provided by the Office of Minority Financial Incentives and grants provided by the Minority Business Development Division. These can include the cost of conferences or workshops and the cost of hiring experts to assist with business planning, feasibility studies, marketing plans or financial planning. See Table 37.

Table 37
Minority Business Loans and Grants by Program 1993-1996

Program	Loans & Grants (1997 Dollars)	Projected Job Creation	Projected Job Retention	Number Grants/Loans
Technical Assistance Grants	$889,480	-	-	28
Direct Loans	$4,865,580	402	340	23
Mini Loans	$1,589,544	100	170	58
Business Assistance Grants	$2,043,784	1,847	1,917	17
Total	**$9,388,389**	**2,349**	**2,427**	**126**

The largest volume and dollar amounts of loans and grants have occurred in the most populated counties of the state. Cuyahoga had the greatest amount at $2.3 million followed by Montgomery County at $1.5 million. These trends are detailed in Table 38:

Table 38
Minority Business Loans and Grants by County 1993-1996

County	Loans & Grants (1997 Dollars)	Projected Job Creation	Projected Job Retention	Number of Grants/Loans
Allen	$242,161	40	6	7
Belmont	$105,620	18	5	4
Butler	$182,453	1	5	5
Clermont	$16,975		4	1
Cuyahoga	$2,252,496	570	404	15
Defiance	$26,905	0	2	2
Delaware	$9,749	1	1	1
Fairfield	$27,296	2		1
Franklin	$1,149,957	229	215	26
Hamilton	$624,722	78	253	7
Hancock	$37,667	2	6	2
Henry	$101,288	5	2	3
Jefferson	$37,191	2	0	2
Knox	$23,446		6	1
Logan	$48,744	10	29	1
Lorain	$55,568	0	0	1
Lucas	$466,584	14	41	9
Mahoning	$278,395	166	256	6
Medina	$27,006	5	1	1
Montgomery	$1,508,588	952	990	13
Ottawa	$20,107		10	1
Paulding	$41,042	4		1
Richland	$544,779	39	5	5
Scioto	$297,538	121	86	4
Stark	$917,812	49	9	2
Summit	$311,197	40	80	3
Washington	$17,504	1	6	1
Williams	$15,598		5	1
Total	**$9,388,389**	**2,349**	**2,427**	**126**

Program Status

A recent ruling by Judge Graham in the 6th District Federal Court has put the State's minority business development programs in a state of flux. The ruling declared that all set-aside programs are unconstitutional.

Program Evaluation

The Minority Business Development Division has listed as their accomplishments the following statistics for 1996:

- Counseled 2,583 start-up and existing businesses;
- Answered 4,691 requests for program information;
- Sponsored or co-sponsored 77 workshops and seminars;
- Awarded $1.7 million in technical assistance grants to 52 minority businesses;
- Prepared and negotiated $4.2 million in loan awards resulting in the creation of 727 new jobs and the retention of 1,593 existing jobs;
- Assisted 1,644 minority enterprises with certification applications for state, county, city, and private organizations;
- Prepared and negotiated more than $2.8 million in bonds for minority businesses; and
- Assisted in the procurement of contracts of more than $35 million for minority owned businesses.

An evaluation of the Minority Business programs is being conducted by KPMG Peat Marwick LLP and Adams Management Consultants, Inc. The scope of their evaluation will include the following:

1. Gather data on programs and minority businesses in the state
2. Benchmark Ohio's programs with other states.
3. Identify duplication of services offered by other state government agencies and other governmental agencies, not-for-profit agencies or private sector organizations.
4. Develop preliminary findings, recommendations, associated fiscal impacts and implementation issues that:

    - identify strengths in the current procedures;
    - identify best practices performed by other state minority business programs;
    - improve and enhance policies and procedures; and
    - increase efficiency through improved information. systems, procedures, and practices

Conclusions

Only one recommendation is offered about program performance in light of the KPMG consulting study to be completed shortly. If the program is recommended for continuation by KPMG, then we would recommend that the program be redesigned in light of the program improvements recommendations in Chapter 20.

SECTION III-D: STATE ECONOMIC DEVELOPMENT GRANT PROGRAMS

CHAPTER 15 - OHIO INDUSTRIAL JOB TRAINING PROGRAM

Purpose

This chapter discusses the Ohio Industrial Training Program, which provides funding to companies for customized job training.

Credits

The analysis supporting this chapter was conducted by CSU's State and Local Government Initiatives Program.

Methodology

An analysis of internal data held by the ODOD was conducted to profile the program and identify relevant trends and issues. Tracking of the program by ODOD has been inconsistent and, therefore, longitudinal data for evaluation research is not available. Staff researchers did the best they could with the data provided to them.

Program Overview

The Ohio Industrial Training Program (OITP) originated in 1979 from the Comprehensive Employment Training Act (CETA), now known as the Job Training Partnership Act, under former Governor James A. Rhodes. Funding from CETA was awarded as a grant to the Department of Education, Division of Vocational Education to assist the General Motors Company of Moraine, Ohio. The Ohio Department of Development (ODOD) formally created the OITP on November 16, 1981 to administer the Ohio Vocational and Technical Resource Consortia and address the training needs of Ohio manufacturing businesses. The ODOD accomplished this objective by linking the state's economic development efforts with the state's public education resources.

ODOD created the OITP under Ohio Revised Code (O.R.C.) Section 122.01, which grants ODOD the authority to serve as the economic and community development planning agency to develop programs for the orderly growth and development of the state. The OITP funds were first provided by the 114th Ohio General Assembly in 1981-82 through Amended House Bill 694 establishing $2,000,000 for fiscal year 1981. Senate Bill 510 then added $5,000,000 in fiscal years 1982-83 in the budget line item 200-514, Post Secondary Vocational Education, according to the O.R.C. Sections 3313.52 and 3313.53. Amended house bills through the present have appropriated funds to OITP for the biennium budgets beginning in FY 1984. In particular instances, the appropriated funds were allocated to specific areas including Construction and Trades, Operating Engineers, Steel Futures Fund, and High Unemployment Program

OITP is part of the larger Loan and Grant program administered by the Ohio Department of Development. The primary aim of OITP is to financially assist traditional manufacturing industries in training employees with respect to existing and new production techniques. The program will also provide assistance in non-manufacturing sectors of the economy that are growing and deemed important by state officials. The stated goals of the program are to create and retain new and existing jobs through training and to help Ohio companies compete head to head with companies from other regions through customized job training assistance.

Companies applying for grants are evaluated on the number of new and retained jobs, the number of employees trained, the location in distressed areas, and the use of state educational institutions. Companies are subsequently rated on "economic rationale," which takes new job orientation, new technology, or demands for a quality rating from an outside entity into consideration. Companies can be reimbursed for up to 50% of training costs.

State Related Expenditures

State Totals

Tables 39 through 41 illustrate expenditure patterns for OITP from 1993 through 1996. The state allocated $39,459,001 to train 177,162 jobs with a projected creation of 19,647 jobs and a projected retention of 41,137 jobs. As indicated in Table 39 the years 1994 and 1995 are by far the two most active years, with dollar activity nearly 2-1/2 times the activity of the other two years combined. Although less money was committed for the years 1993 and 1996, the costs attributed to each individual job trained was between $200 to $300 dollars higher relative to the other two years.

Table 39
State Yearly Totals, OITP, 1993-1996

Year	Projected Jobs Created	Projected Jobs Retained	Jobs Trained	Funds Allocated (1997 Dollars)	$ Per Job Trained
1993	3,701	2,556	14,385	$5,963,891	$415
1994	7,512	24,032	89,125	$14,797,098	$166
1995	7,373	11,193	60,252	$11,963,578	$199
1996	1,061	3,356	13,400	$6,734,434	$503
Total	**19,647**	**41,137**	**177,162**	**$39,459,001**	**$223**

County Totals

Table 40 itemizes the per county expenditures for OITP from 1993 through 1996. Of Ohio's 88 counties, 82 have received OITP funding for at least one of the years from 1993 through 1996. It appears that allocated funds vary directly with both the size of the county and the location of distressed economic areas. A large amount of variation exists in terms of dollars allocated per job trained; the lowest amount being $9 per job in Huron

County, and the highest being $1,855 per job in Putnam County. The average for the entire State of Ohio is $307 per job.

Table 40
County Level Expenditures, OITP, 1993-1996

County	Projected Jobs Created	Projected Jobs Retained	Jobs Trained	Funds Allocated (1997 Dollars)	$Per Job Trained
Adams	39	93	742	$136,003	$183
Allen	208	2,569	5,379	$680,873	$127
Ashland	55	386	443	$43,654	$99
Ashtabula	81	386	1,198	$93,226	$78
Athens	65	-	631	$114,455	$181
Auglaize	74	2	259	$231,159	$893
Belmont	108	57	334	$100,515	$301
Brown	23	-	47	$42,057	$895
Butler	198	12	402	$157,911	$393
Champaign	223	-	343	$496,564	$1,448
Clark	539	-	882	$547,553	$621
Clermont	3	200	1,267	$93,600	$74
Clinton	1,510	177	4,139	$312,379	$75
Columbiana	110	50	780	$79,851	$102
Coshocton	154	744	1,412	$220,856	$156
Crawford	19	39	162	$30,219	$187
Cuyahoga	949	9,300	18,522	$5,980,565	$323
Darke	104	-	898	$216,202	$241
Defiance	320	-	4,522	$304,614	$67
Delaware	389	547	1,669	$228,682	$137
Erie	139	249	1,802	$129,700	$72
Fairfield	-	-	88	$105,369	$1,197
Fayette	-	-	429	$15,805	$37
Franklin	1,508	1,379	13,596	$5,394,512	$397
Fulton	240	60	2,950	$509,680	$173
Gallia	-	-	70	$25,575	$365
Geauga	-	65	249	$22,162	$89
Greene	-	50	145	$9,749	$67
Guernsey	186	15	958	$326,043	$340
Hamilton	590	913	3,930	$1,148,398	$292
Hancock	176	-	1,703	$819,929	$481
Hardin	167	25	248	$181,413	$732
Harrison	-	-	-	$2,697	-

Table 40 Continued
County Level Expenditures, OITP, 1993-1996

County	Projected Jobs Created	Projected Jobs Retained	Jobs Trained	Funds Allocated (1997 Dollars)	$Per Job Trained
Highland	62	811	1,098	$172,726	$157
Hocking	21	309	332	$102,770	$310
Holmes	296	-	733	$65,873	$90
Huron	60	-	1,673	$15,805	$9
Jackson	215	143	2,967	$182,279	$61
Jefferson	30	7	771	$139,631	$181
Knox	100	18	180	$68,277	$379
Lake	90	221	1,062	$188,220	$177
Lawrence	66	-	701	$49,043	$70
Licking	58	1,050	2,253	$387,993	$172
Logan	217	-	757	$115,187	$152
Lorain	2,406	183	5,704	$1,017,795	$178
Lucas	435	2,338	8,487	$1,919,396	$226
Madison	21	-	23	$10,537	$458
Mahoning	182	50	1,671	$365,117	$219
Marion	759	-	3,992	$587,200	$147
Medina	21	-	194	$139,429	$719
Mercer	220	-	297	$137,954	$464
Miami	-	-	816	$392,744	$481
Monroe	-	-	427	$61,380	$144
Montgomery	187	892	13,852	$1,630,890	$118
Muskingum	499	74	2,904	$305,753	$105
Noble	5	-	38	$30,119	$793
Ottawa	20	150	635	$76,725	$121
Paulding	113	-	1,186	$38,456	$32
Perry	38	-	643	$87,392	$136
Pickaway	150	121	2,205	$212,711	$96
Pike	40	-	1,445	$404,033	$280
Portage	384	40	1,441	$106,558	$74
Preble	-	53	196	$19,679	$100
Putnam	25	110	150	$223,302	$1,489
Richland	259	923	1,831	$1,308,119	$714
Ross	175	913	5,616	$577,789	$103
Sandusky	342	49	1,779	$406,278	$228
Scioto	64	197	257	$231,919	$902
Seneca	400	330	2,059	$266,418	$129
Shelby	-	174	592	$63,221	$107
Stark	717	3,121	4,487	$1,268,946	$283
Summit	594	40	1,983	$1,008,888	$509

Table 40 Continued
County Level Expenditures, OITP, 1993-1996

County	Projected Jobs Created	Projected Jobs Retained	Jobs Trained	Funds Allocated (1997 Dollars)	$Per Job Trained
Trumbull	1,245	10,516	18,348	$3,439,945	$187
Tuscarawas	63	-	581	$82,240	$142
Union	25	257	462	$140,097	$303
Van Wert	30	100	1,588	$56,901	$36
Warren	55	48	669	$47,598	$71
Washington	188	291	2,857	$296,257	$104
Wayne	325	-	2,956	$283,107	$96
Williams	-	133	314	$15,805	$50
Wood	-	157	282	$523,235	$1,855
Wyandot	268	-	1,469	$142,349	$97
County Average	**240**	**502**	**2,161**	**$466,049**	**$307**
State Totals**	**19,647**	**41,137**	**177,162**	**$38,216,056**	**$216**

**Note: Totals here are different from Table 38 due to a number of records that fail to report a county relationship

Seven Major Ohio Urban Counties

Table 41 illustrates OITP trends within the seven major urban counties. Funding levels are quite high within these counties relative to the rest of the state, which account for 46% of all state OITP allocations for the years 1993 through 1996 (these counties accounted for 45% of the state's estimated population in 1997, so this should be expected). Dollars allocated per job trained are slightly lower for the entire seven-county average compared to the county average for the state ($281 versus. $307), but are still higher than the statewide average ($281 versus $216).

Table 41
Seven Major Ohio Urban County Totals, OITP, 1993-1996

County	Projected Jobs Created	Projected Jobs Retained	Jobs Trained	Funds Allocated (1997 Dollars)	$Per Job Trained
Cuyahoga	949	9,300	18,522	$5,980,565	$323
Franklin	1,508	1,379	13,596	$5,394,512	$397
Hamilton	590	913	3,930	$1,148,398	$292
Lucas	435	2,338	8,487	$1,919,396	$226
Mahoning	182	50	1,671	$365,117	$219
Montgomery	187	892	13,852	$1,630,890	$118
Summit	594	40	1,983	$1,008,888	$509
County Averages (other counties)	**240**	**502**	**2,161**	**$466,049**	**$307**
State Totals**	**19,647**	**41,137**	**177,162**	**$38,216,056**	**$216**
7-County Total	**4,445**	**14,912**	**62,041**	**$17,447,766**	**$281**

Findings/Conclusions

This report presents a descriptive analysis of expenditure patterns for OITP for the years 1993 through 1996. Because no evaluation of OITP has been completed in recent years, an evaluation that utilizes proper statistical controls should be considered in the near future. Data reporting for the OITP program appears to be less than optimal. Data for actual jobs created and actual jobs retained have not been systematically collected since 1993. Knowledge of these data is essential in determining whether stated program goals have been reached.

Work force development is currently the top economic development priority facing Ohio and most ofther states. Presently, Ohio underspends on work force training. The study team recommends that the State of Ohio create the Quality Jobs Initiative to increase the growth of high quality jobs in Ohio communities. See Chapter 20 for details. One component of this proposal is to increase customized job training to about $100 million annually, which more accurately reflects the investment that North Carolina and other competitior states make in work force training and development.

CHAPTER 16 - ROADWORK DEVELOPMENT GRANT PROGRAM

Purpose

This chapter discusses the Ohio Roadwork Development Program, which provides funding to companies for highway and road infrastructure improvements to economic development projects in the State of Ohio.

Credits

The analysis supporting this chapter was conducted by John Brennan of the CSU Urban Center.

Methodology

An analysis of internal data held by the ODOD was conducted to profile the program and identify relevant trends and issues.

Program Overview

The Roadwork Development Account, part of the larger Loan and Grant program created in 1965 under ORC 122.43, was established in 1980 and has been amended several times since. The Director of Development receives power from ORC 122 to make decisions regarding fund allocation for this program.

Program Guidelines

With approval from the State Controlling Board, the Roadwork Development Account provides roadwork grant assistance for public road improvements and construction to communities and companies for projects that create or retain jobs. Eligibility is confined to companies engaged primarily in manufacturing, research and development, high technology, corporate headquarters and distribution. Specific projects must demonstrate serious financial need, must create or retain jobs, and must exhaust all other potential forms of public and private funding.

Financial Information

Tables 42 and 43 contain data for total expenditures, projected jobs created or retained, and total number of projects associated with the Roadwork Development Account from 1993 to 1996. All dollar figures are in 1997 dollars. Table 42 itemizes yearly totals and Table 43 breaks down the aggregate four-year totals by county. Table 42 exhibits a relatively constant yearly pattern in terms of total projects, but variation with respect to total funds allocated and projected jobs created or retained. With all three variables, a drop off occurs for 1996.

Table 42
Funding and Jobs by Year, Roadwork Development Account

Year	Funding	Projected Jobs Created or Retained	Number of Projects
1993	$11,682,966	4,026	53
1994	$10,619,603	9,864	51
1995	$17,361,644	4,895	52
1996	$8,000,818	3,597	42
Total	**$47,665,030**	**22382**	**198**

Table 43
Funding and Jobs by County, Roadwork Development Account

County	Funding	Projected Jobs Created or Retained	Number of Projects
Allen	$326,087	505	1
Ashland	$210,748	0	1
Ashtabula	$1,357,246	158	3
Athens	$52,528	293	1
Auglaize	$237,092	0	1
Brown	$87,444	0	1
Butler	$970,292	0	4
Champaign	$202,113	292	2
Clark	$368,612	40	5
Clermont	$2,546,788	580	4
Clinton	$1,772,041	1884	4
Columbiana	$135,971	125	2
Crawfprd	$814,311	85	4
Cuyahoga	$2,477,311	697	9
Darke	$436,664	12	2
Defiance	$194,444	0	2
Delaware	$386,120	169	3
Fairfield	$178,937	70	1
Fayette	$642,633	145	2
Franklin	$3,643,338	2339	9
Fulton	$5,001,038	600	6
Gallia	$255,624	133	1

Table 43 Continued
Funding and Jobs by County, Roadwork Development Account

County	Funding	Projected Jobs Created or Retained	Number of Projects
Geauga	$179,136	105	1
Greene	$589,779	0	2
Guernsey	$168,599	0	1
Hamilton	$2,644,907	540	5
Hancock	$1,234,750	75	3
Hardin	$111,111	0	1
Harrison	$69,927	166	2
Highland	$268,208	0	2
Huron	$599,330	692	5
Jackson	$246,741	115	4
Knox	$438,978	1234	3
Licking	$550,143	112	3
Logan	$75,840	87	1
Lorain	$721,008	410	6
Lucas	$938,833	531	6
Mahoning	$1,397,385	960	6
Marion	$105,374	0	1
Medina	$514,372	627	2
Mercer	$644,111	269	4
Miami	$818,253	802	5
Monroe	$16,667	0	1
Montgomery	$2,938,113	1355	9
Morrow	$273,973	0	1
Muskingum	$752,304	270	3
Noble	$97,998	112	1
Ottawa	$61,350	0	1
Paulding	$108,342	80	1
Perry	$200,433	0	2
Pike	$204,499	25	1
Portage	$1,513,055	830	4
Putnam	$96,626	0	1
Richland	$213,344	250	2
Ross	$262,189	215	1
Sandusky	$157,944	75	2
Scioto	$187,594	0	2
Stark	$1,113,089	899	9
Summit	$1,111,289	330	6
Trumbull	$834,728	520	3

Table 43 Continued
Funding and Jobs by County, Roadwork Development Account

County	Funding	Projected Jobs Created or Retained	Number of Projects
Tuscarawas	$94,559	38	2
Warren	$955,787	180	3
Wayne	$487,781	1340	3
Wood	$1,106,688	1011	7
Wyandot	$262,514	0	2
Total	**$47,665,030**	**22382**	**198**

By examining the county data in Table 42, a better understanding of the distribution of projects and funds can be gained. Not surprisingly, the maps show that aggregate activity is concentrated in the urban regions of the state. Twenty-three of Ohio's counties—most of them rural—had no roadwork development projects. However, by looking at funding on a per capita basis and projected job creation and retention on a per 1,000 population basis, one can conclude that the rural areas of the state are rather fairly represented in Roadwork Development Account activity where rural and semi-rural counties, on the whole, are classified higher than urban counties in both per capita funding and projected jobs created or retained per 1,000 population.

Findings and Conclusions

This report presents only a descriptive view of expenditure patterns for the Roadwork Development Account for the years 1993 through 1996. Because no evaluation of the Roadwork Development Account has been completed in recent years, an evaluation that utilizes proper statistical controls should be considered in the near future.

In terms of the larger policy directives of the 629 account, two major questions arise. One deals with the industrial focus of the program. Datafiles indicate that a good number of projects funded include local government, retail, and small business service projects that generate little export-based employment (the number of these types of projects did decrease significantly during the last two years of data availability). Although the great majority of projects funded through this account are related to manufacturing and high-tech business service establishments—establishments that do generate a good amount of export based employment—the presence of the former types may indicate inefficient allocation of funds with respect to the overall intent of the program.

A second area of concern is the possible impact of the funds from this account on generating suburban sprawl. The data provided for analysis only enable us to assess direct impacts through account funding at the county level. Analysis of this data indicates a somewhat equitable funding pattern where urban and rural areas receive funding in proportions relative to their population. In that most projects have been quite small, the likelihood that they have influenced specific cases of suburban sprawl is quite small. However, to examine this further, data on indirect effects, such as ancillary job and population growth, need to be examined at the sub county level.

As with other Loan-Grant programs in the State of Ohio, data reporting for the Roadwork Development Account program appears to be less than optimal. Data for actual jobs created and actual jobs retained has not been systematically collected since 1993. Knowledge of these data is essential in determining whether stated program goals have been reached. Overall, a much more regimented data collection effort needs to be undertaken to facilitate proper evaluation of impact of this account. Data collection wider variety of qualitative aspects of each project as well as more specific geographic data should be considered.

We recommend that the program be redesigned in light of the program improvement recommendations in Chapter 20.

CHAPTER 17 - 412 BUSINESS DEVELOPMENT ACCOUNT

Purpose

This chapter presents an analysis of the 412 Business Development Account.

Credits

The analysis was conducted by John Brennan and other CSU Urban Center staff.

Methodology

The analysis uses internal program data maintained by the Ohio Department of Development.

Program Overview

The Office of Business Development administers the 412 Business Development Account. This program provides infrastructure grant assistance to companies and communities for projects that create and retain jobs. The program was established as the Director of Development's discretionary fund. The Director of Development receives power from Ohio Revised Code Chapter 122 to decide the allocation of funds regarding this program.

The companies eligible for this program may come from manufacturing, research and development, high technology, corporate headquarters, and distribution. The funds may be used for on- or off-site infrastructure improvements, including water and sewer improvements, road improvements, and rail work. For instance, the Ohio Department of Transportation's Rail Division and the Steel Futures Program receives set-asides from the 412 Account for rail and steel projects.

Before using the program, a company must consider all other public and private sources of financing. Once this criterion is assured, the company must work with a Business Development representative to apply for funding.

Through the grants provided by the program, companies are induced to move forward with a development project. Ohio communities benefit from the job creation and retention, and the program funds act as a catalyst for additional development and revitalization.

Financial Information

Data regarding the 412 Business Development Account was only available for fiscal years 1993-1996, and job creation and retention information was only available for fiscal year 1993.[50] The total amount of grants given during this four-year period was

$35,449,768 as reported in 1997 dollars. There were 150 projects that took place in 55 counties during this time period. Montgomery County received the greatest amount in grants ($6,761,916) and Noble County received the least ($5,268). Table 44 shows the amount in grant investments, the average dollar amount per investment, total number of jobs created or retained (1993 only), and the number of projects per county during the four year period.

Table 44
412 Account Investments and Jobs by County during Fiscal Years 1993-1996

County	Grant Investments (1997 Dollars)	Average $ in Investments per Project	Jobs Created and/or Retained	Number of Projects
Adams	$74,938	$37,469	0	2
Allen	$526,845	$526,845	0	1
Ashland	$263,423	$263,423	0	1
Ashtabula	$424,825	$106,206	0	4
Auglaize	$604,399	$302,200	0	2
Belmont	$819,101	$273,034	100	3
Carroll	$196,661	$65,554	0	3
Champaign	$146,699	$146,699	0	1
Clark	$613,846	$122,769	605	5
Clermont	$737,583	$737,583	0	1
Clinton	$111,136	$111,136	0	1
Columbiana	$640,931	$213,644	0	3
Cuyahoga	$3,039,351	$276,305	641	11
Delaware	$263,423	$263,423	0	1
Erie	$455,771	$227,886	178	2
Fairfield	$270,798	$270,798	0	1
Franklin	$2,416,273	$172,598	0	14
Fulton	$1,580,535	$1,580,535	0	1
Guernsey	$195,400	$48,850	0	4
Hamilton	$1,372,093	$196,013	786	7
Hancock	$535,495	$133,874	348	4
Hardin	$84,029	$42,015	0	2
Harrison	$49,616	$49,616	0	1
Holmes	$88,909	$88,909	0	1
Jackson	$261,169	$130,584	0	2
Jefferson	$170,609	$85,304	0	2
Lake	$641,516	$160,379	0	4
Lawrence	$306,900	$306,900	0	1
Licking	$102,300	$102,300	0	1
Logan	$63,221	$63,221	0	1
Lorain	$85,328	$28,443	0	3
Lucas	$2,899,528	$414,218	1240	7
Mahoning	$124,567	$124,567	0	1
Mercer	$680,781	$170,195	0	4

Table 44 Continued
412 Account Investments and Jobs by County during Fiscal Years 1993-1996

County	Grant Investments (1997 Dollars)	Average $ in Investments per Project	Jobs Created and/or Retained	Number of Projects
Montgomery	$6,761,916	$1,126,986	200	6
Morgan	$108,319	$108,319	0	1
Muskingum	$330,591	$165,295	0	2
Noble	$5,268	$5,268	0	1
Ottawa	$153,450	$153,450	0	1
Paulding	$250,104	$83,368	0	3
Pike	$587,927	$293,963	0	2
Portage	$76,725	$76,725	0	1
Putnam	$153,902	$76,951	0	2
Richland	$1,443,714	$481,238	1637	3
Ross	$52,685	$52,685	0	1
Sandusky	$541,597	$541,597	0	1
Scioto	$143,220	$143,220	0	1
Shelby	$817,347	$408,674	0	2
Stark	$1,030,297	$1,030,297	0	6
Summit	$1,365,443	$151,716	201	9
Trumbull	$54,160	$54,160	0	1
Tuscarawas	$179,025	$179,025	0	1
Warren	$204,600	$204,600	0	1
Wayne	$79,027	$79,027	0	1
Wood	$260,354	$130,177	0	2
Total	**$35,449,765**	**$233,397**	**5976**	**150**

The grant investments vary from year to year with fiscal year 1994 reporting the lowest number of grants ($5,701,778). Table 45 reports the grant investments, the average amount of investment per projects, the number of jobs created and/or retained, and the number of projects (FY 1993 only) for fiscal years 1993 through 1996.

Table 45
412 Account Investments and Jobs by Year

Year	Grant Investments (1997 Dollars)	Average $ in Investments per Project	Jobs Created and/or Retained	Number of Projects
1993	$9,106,164	$246,113	5976	37
1994	$5,701,778	$190,059	NA	30
1995	$10,652,806	$247,740	NA	43
1996	$9,987,020	$249,676	NA	40
Total	**$35,449,765**	**$233,397**	**5976**	**150**

Conclusions

The 412 Account has provided valuable assistance to many economic development projects in urban and rural Ohio communities. It is a valuable program and should be continued in the future, but like other state programs, the 412 Account must be redesigned to increase its strategic intent and accountability. Program monitoring has not focused on measuring the program's contribution to strategic economic development goals. In the future, monitoring should permit this focus.

Since unplanned infrastructure is a significant cause of urban sprawl, we recommend that the program adopt guidelines to mitigate unplanned growth and inefficient development patterns. One strategy to accomplish this goal is to define those types of development projects that the program will and will and will not invest in. We believe the greatest future priority should be placed in two areas: 1) assisting with physical infrastructure needs of existing firms to expand at their current location; and 2) assisting firms to expand in target development areas, such as within enterprise areas, and other locations which are already developed. The program should discourage firms from locating in areas that are currently undeveloped, unzoned, and unserved by infrastructure.

The program should be redesigned in light of the program improvement recommendations in Chapter 20.

CHAPTER 18 - OHIO THOMAS EDISON PROGRAM

Purpose

This chapter discusses the direct impacts of the Ohio Thomas Edison Program on the Ohio economy and communities. The Edison Program is the state's chief stimulus for technological innovation by Ohio businesses. The study team has prepared a more in-depth analysis of the Edison Program than requested by the State of Ohio because of its strategic importance to Ohio's future economy.

Credits

The analysis underlying this chapter was conducted by Adina Swirski, Ziona Austrian, Dean Prestegaard, and Don Iannone of the CSU Urban Center's Economic Development staff.

Methodology

The analysis focused upon internal ODOD data provided to the study team. These data were analyzed in a variety of ways to provide insight into trends and issues characterizing the program. Interviews and meetings with Edison Center directors and ODOD Program staff were conducted to assess qualitative issues surrounding the program.

Program Overview

The Ohio Thomas Edison Program is a longstanding component of Ohio's economic development strategy. This analysis examines the program's history, evolution over time, and its primary program components today. Because of recent analyses of the program, the Ohio Economic Development Study Advisory Committee assigned the program a Level 2, Cursory Analysis priority. This level of analysis is more descriptive and qualitative in nature and concentrates less on program performance, as measured in quantitative terms.

The analysis presented in this report is based, in large part, on internal reports and files supplied to the researchers by the Edison Program staff within the Ohio Department of Development, and the individual centers.

The scope of this analysis includes:

1. Edison Seed Development Fund (now defunct)
2. Edison Incubators
3. Edison Technology Centers
4. Federal Technology Transfer Initiatives

Like other aspects of the Ohio Economic Development Study, this analysis focuses on the statewide initiative, and it does not attempt to evaluate the performance of individual centers and activities.

In the early 1980s, the State of Ohio, as well as most other states, was facing serious economic problems. High rates of unemployment and the continued loss of jobs in the state's traditionally strong, manufacturing industries were of great concern to government leaders. As in other states around the nation, Ohio began to look for new and innovative ways to promote the development of new firms and to strengthen firms already operating in the State.

State government decided that it needed to play a more direct role in helping combat the long-term decline in Ohio's core manufacturing sector. These improvements were seen as essential to re-position Ohio industry for global competition. Newly developed and developing countries were seen to have several advantages including: the use of new, more efficient manufacturing processes; rapid production of newly developed products, especially advanced electronics and other technology related products; and the availability of a low cost labor force.

Ohio also faced increasing competition from other states, primarily in the South and western part of the country, which offered cheap land for building new manufacturing facilities and an abundant low cost labor force. With this increased national and international competition came a belief that the state needed to do something to promote the development of new, high-technology firms and to assist existing firms to adopt new production technologies that would increase their efficiency.

One program developed to address these issues was the Ohio Thomas Edison Program. Implemented under the Celeste administration in 1983, the goal of the Edison Program was to promote the development and implementation of new technologies for products and production, in order to increase the competitiveness of Ohio industries. The program was continued and advanced during the Voinovich Administration during the 1990s. As the Taft Administration takes office this coming January, the program must be ready to respond to new policy ideas under Governor Taft's leadership. From the beginning, the program was envisioned as a series of strategic partnerships between industry, government, and universities throughout the State. These partnerships were expected to bring together knowledge and experience from diverse groups interested in technological development to help create new and/or improved commercial opportunities.

Over the 15 years since the program was first enacted, it has continued to evolve and transform in an attempt to meet the changing needs of firms operating in an increasingly technologically advanced, global economy. This report reviews the origins of the program and some of the major changes that have taken place over time. While a detailed discussion of the program's history would provide little insight into its current operations, understanding the fundamental issues that have shaped the program will help build an understanding of the program's goals and intended impacts.

Bipartisan leadership and visionary actions by both the executive and legislative branches of state government created Ohio's Thomas Edison program – an initiative that effectively brings together technology providers and users to create commercial opportunities. Many Ohio companies have seen significant increases in sales, profits and market share due to the Edison Program. (Ohio Department of Development, 1998)

The Ohio Thomas Edison Program originally had three initiatives:[51] Edison Technology Centers, Edison Technology Incubators, and the Seed Development Fund. Since it was first implemented, one initiative, the Technology Transfer Initiative, has been added and one, the Seed Development Fund, has been abandoned.

Table 46
Ohio Thomas Edison Program Elements

Program	Year Implemented	Currently Operating
Thomas Edison Seed Development Fund	1984	No
Thomas Edison Technology Centers	1984	Yes
Thomas Edison Technology Incubators	1985	Yes
Thomas Edison Technology Transfer Centers	1984	Yes

While each of these initiatives is unique in terms of the specific activities in which they are involved, they all share a common focus and goals. That is, to support public/private partnerships, which could strengthen and diversify the economy of Ohio through the promotion of technological innovation. Each of the initiatives is designed to support the Program's goals, including:

- Accelerate the development and implementation of those advanced technologies most likely to benefit the economic development of the State;
- Integrate Ohio's academic community into a cooperative economic development effort;
- Maintain and create jobs through technological innovation and entrepreneurship;
- Improve the productivity and competitive posture of Ohio's established industries; and
- Diversify Ohio's economy and increase Ohio's share of advanced technology firms that are among the national growth leaders.

When the program was first enacted, each of the three initial initiatives was operated independently. Each initiative was to work toward meeting the program's goals, however, relatively little was done to coordinate activities or reporting procedures across initiatives. Over time, each of the initiatives has increased coordination in several ways.

This coordination has occurred both in terms of each initiative's various activities and in terms of reporting procedures.

Two earlier evaluation studies have looked at the operation and impact of the Centers, *Ohio's Thomas Edison Centers: A 1990 Review*, which was conducted by the National Research Council, and *The Edison Technology Centers: An Economic Impact Study*, conducted by Battelle Memorial Institute in 1996.

Ohio's Thomas Edison Centers: A 1990 Review

The National Research Council formed the Committee to Review the Ohio Edison Technology Centers (ETC), made up of representatives of government, industry, and academe who did not reside in Ohio. The Committee concluded that the Technology Centers were generally healthy and well managed. Nine centers were reviewed and the Centers' performance was to be judged by how effectively they served target communities.

The State identified seven criteria for successful performance by the Centers:

1. economic development;
2. increase competitiveness and productivity;
3. diversification of Ohio's economy;
4. formation of effective partnerships and consortia involving private sector, colleges and universities and government;
5. developing highest possible technical competence;
6. developing financially and scientifically viable instruments; and
7. establish and improve education and training programs.

Based on these criteria, the report made a number of conclusions and recommendations. It found that wide diversity characterized the Centers. Each Center reflected the available resources and the needs of the communities it serves. Thus, there was diversity in both missions and achievements. It was also noted that due to an absence of hard data, evaluations of the Centers must be qualitative.

The report determined that the Program was successful and had achieved significant increases in technical assistance to small industries. In addition, the Centers' scopes of activities were appropriate and generally corresponded to Ohio's historic strengths in manufacturing and materials and its emerging strength in biotechnology. Suggestions were also made to improve technical programs. Industry should define generic research projects rather than universities to ensure relevance to industry. It was also stressed that the issues of intellectual property and proprietary information needed to be dealt with. Excellent management was also seen as critical. Managers need both business skills and technical skills, and the report emphasized that an industry led board of directors is crucial. Finally, the study also indicated that training activities should have addition emphasis.

Battelle's Economic Impact Study of the Edison Technology Centers

In early 1996, the Ohio Department of Development contracted with Battelle Memorial Institute to study the economic impact of the seven Edison Technology Centers (ETCs) on the Ohio economy. Battelle analyzed outcome data collected by the ETCs, and applied Battelle's proprietary econometric model of the Ohio economy. Battelle concluded through their economic impact assessment that the ETCs are valuable to Ohio's economy, and validate the State's initial and continuing investment in the ETCs. The CSU Urban Center is currently working with the Centers, under a separate contract, to update the impact analysis. The CSU research team is in the data collection stage and expects to complete its analysis by late February 1999.

Conclusions for Calendar Years 1992-1995:

- The direct impact of the ETCs' operations on Ohio's economy is estimated to be over $700 million, and the total impact over $1.2 billion on Ohio's gross state product.
- Client companies have been able to create or retain more than 2,500 jobs.
- The jobs created were directly responsible for a boost of approximately $92 million in personal income and a total impact on personal income of $169 million.
- Assistance from the ETCs has helped Ohio companies increase their sales by more than $110 million.
- The ETCs have worked with their client companies and other Ohio organizations to provide the State with $150 million in funding.
- Ohio funds have been replenished through the collection of additional income, sales, gas, and franchise taxes.

Conclusions

The Edison Program is one of the State of Ohio's longer standing economic development initiatives. The program has gone through a number of changes over the years. This is an opportune time to consider the direction of the program over the next decade. Like all other economic development programs, the state's technology initiatives must become more performance-based in the future. These initiatives' contributions to the growth of the overall Ohio economy, and the state's major existing and emerging industry sectors and clusters must be better understood in the future. We recognize the difficulty in reaching this understanding, but we do see the need for much improvement in this regard.

Our analysis indicates that Ohio's Thomas Edison Program has seriously attempted to confront some of the difficult evaluation questions being asked of all State of Ohio economic development programs included in the Ohio Economic Development Study

Project. This is especially evident in examining the Edison Centers' 3-year old Key Performance Measures (KPM) effort. We applaud this effort to make these programs more effective and more accountable in the future. One easy conclusion of this analysis is that the KPM effort should be continued and expanded on. In fact, we believe that there is much that other State of Ohio economic development programs can learn from the process followed by the Edison Centers.

Looking toward the future, several important policy direction questions come to mind, many of which cannot be answered fully by the research conducted for this limited program review study. First, what role should the State of Ohio play in supporting technological innovation by industry in the future? Our analysis of state technology programs nationally reveals that states anticipate playing a continuing role in industry technological innovation, but this future role will likely include greater reliance on the private sector to make things happen. Should this future role depend more upon the private marketplace to increase technological innovation and new technology commercialization by firms? Can the Edison Program serve a vital "market-building" role in Ohio by identifying, networking, and enabling private R&D, technology consulting, engineering, and financial service companies to help Ohio build a more technologically advanced economy for the 21st Century?

Some have argued that the private sector market simply fails to provide the types of services that smaller manufacturing firms need. Others suggest that the services are available, but that the cost of these services is too high for the smaller manufacturers. In order to cover the costs of providing services, private sector consultants focus on larger firms. Larger firms are more likely to hire consultants for large, long-term projects. This reduces the costs of providing services because private consultants do not have to devote as much time and financial resources to the marketing of their services.

In either case, small and medium sized firms do not receive the services they need to become more efficient, technologically advanced, and/or globally competitive. By subsidizing these services, governments are able help promote further economic growth and development.

Is the State of Ohio and its major stakeholders sufficiently satisfied with the accomplishments and future direction of the Edison Program? How clear have these expectations, especially by state government itself, been over the past 15 years? On the one hand, these initiatives are expected to provide highly concrete and tangible assistance to businesses with technology modernization and other needs. On the other hand, some expect the Edison Program to provide leadership in bringing about new basic innovations serving as the foundation for future industries. These two expectations are found on different ends of the continuum.

Some of our interviews suggest that the technology centers themselves would like further clarification on future mission and goals from both the Administration and the Legislature. Marked differences exist in the structure and function of the technology centers, the incubators, and the Federal technology transfer agents. In general, we find

many satisfied industry customers at the individual center level. Those centers with the most active relationships with business and industry have the most satisfied customers.

Many additional strategic questions emerge. Should this role stay on the current course of using focused technology centers and incubators to assist firms with innovation and commercialized needs? While the centers exist as separate organizations, they are working to function as an effective innovative network across Ohio. What incentives would motivate further progress in developing this network? Do new future roles exist for private firms, universities, federal research facilities, and state government in this growing 'web?'

A number of questions emerge with respect to the centers and what they do. Should the State of Ohio modify the mission and role of existing centers? Should existing centers be expanded to increase the response to current and future challenges and opportunities? Should the State of Ohio create any new centers reflecting that the need for the types of services that the technology centers provide is in demand by private sector firms? Several reasons have been offered to explain why government, whether federal, state or local, should be involved in providing these services.

As the State of Ohio examines new overall economic development goals for the first decade of the next century, what role should the Edison Program play? Some argue that the Ohio Science and Technology Council's efforts should be better connected with the Edison Program. Smart firms, universities, and economic development organizations are constantly asking the question whether they are pursuing the 'right' technologies, and are they working with the 'right' industries to adopt and use these technologies.

We observe that the Edison Program, by and large, serves the manufacturing sector. While all forecasts indicate that manufacturing will be a driving component of Ohio's future economy, the wisdom in avoiding the service sector of the economy is not clear. The State of Ohio has invested heavily in the past decade in the development of facilities, infrastructure, and human resources for professional sports, travel and tourism, the arts and culture, education and learning, and a myriad of other functions and activities enhancing Ohio citizens' quality of life. If the state is to invest in these activities as an aspect of its overall economic development strategy shouldn't these facilities and infrastructure be as technologically advanced as possible? One thought is for the State of Ohio to invest in an Advanced Technology Center for the Arts, Entertainment, and Leisure Industries. This type of thinking is needed to ensure that the Edison Program is properly focused for the future.

Recommendations

A number of recommendations are offered to the State of Ohio regarding the Edison Program.

1. **Continue the Program and Expand Its Role**: The Edison Program is an investment in the future. The program provides ample assistance to Ohio

manufacturers with technological innovation. These efforts are considered valuable. The program should be expanded to allow it to provide greater assistance to non-manufacturing industries in the state, and to work on broader challenges relating to the state's technical and human infrastructure, including help state and local government in other with essential cost-saving improvements to the public infrastructure and various public services.

The top priority in this regard should be to help Ohio's cumbersome public education industry to increase its productivity and effectiveness in the future through the use of new advanced technology. This assistance should be linked by the Ohio Legislature to future to meet the requirements of the current funding court order.

2. **Program Redesign**: Like the state's other economic development programs, the Edison Program should undergo sufficient redesign to bring it in alignment with the State of Ohio's future economic development strategy. The program's Key Performance Measures initiative is valuable and should be continued. Other state economic development programs should be encouraged to learn from this process.

   This redesign should focus on:

   - **Integration**: Improving the integration of the Edison Program with the state's larger economic development strategy. At present, serious shortcomings exist in this regard. Most of Ohio's future growth will be productivity-based. The Edison Program should identify new ways through integration with other parts of state government, including higher education and the Governor's Science and Technology Council, that it can help Ohio improve its state climate for productivity. Continued attention should be given by the program to the integration of technological innovation and human resource development.

   - **Diversification**: Diversify the focus on the program to include an emphasis on economic sectors other than manufacturing, which has received the vast majority of the program's attention since its inception. Manufacturing should remain the major priority, but technology service industries, the multimedia industry, electronic commerce development, environmental industries, and other emerging industries should receive greater attention in the future.

   - **Network Development**: The program has taken steps to increase its national linkages in recent years. This effort should be continued with greater attention to international linkages in the future. While Ohio should be a developer of its own leading edge technology, greater attention in the future should be given to the use of available technology worldwide.

- **Private Market Building**: The Edison Program, like other state economic development programs, needs to increase attention to development of a market-based research and development and innovation support industry. A deliberate effort should be placed upon encouraging the growth of R&D in private industry. The public infrastructure for technological innovation is large and changing in the United States. Further attention should be given to how the State of Ohio can provide appropriate "incentives" for the private sector role to grow in this area.

CHAPTER 19 - CROSS-CUTTING ISSUES AND CONCERNS

Purpose

This chapter identifies some of the major issues that cut across the analysis of individual program issues and trends. This chapter is designed to identify opportunities for integrated problem solving by the State of Ohio. The chief focus in this regard is the relationship between economic development incentives and state business tax policy.

Credits

This chapter is based upon analyses completed by Ned Hill, Kevin O'Brien, Don Iannone from CSU, and Alan Peters and Peter Fisher from the University of Iowa.

Methodology

Intensive analysis of Ohio's public finances was performed by Ned Hill, Kevin O'Brien, and other CSU State and Local Government Initiatives Program staff. Peter Fisher and Alan Peters used the TAIM Model to simulate the effects of changes in Ohio's tangible personal property tax.

Ohio Business Tax Base Analysis

Ned Hill and Kevin O'Brien prepared an analysis of Ohio business taxation trends. This analysis built upon the earlier research conducted by the Georgia State University team for the Ohio Commission on Taxation and Economic Development. The Georgia State researchers concluded that Ohio's tax system as a whole was nearly 30 years out of step with the state's economy. Moreover, the lag between the economy and state tax policies would widen even further in the future as the economy continued to grow in new directions. The Georgia State analysis pointed to the need to seek greater tax equity between citizens and businesses in the state. It also recommended that the Tangible Personal Property Tax be eliminated and replaced by other revenue sources.

O'Brien and Hill concluded from their recent analysis that:

- business' share of total state taxes has declined steadily over time, and that this share will continue to go down in the future;
- within business, manufacturing firms pay a disproportionate share of business taxes; and
- current business tax policies are very much outmoded in light of economic conditions.

Hill and O'Brien recommended that the Tangible Personal Property Tax be eliminated and replaced in Ohio. This recommendation is consistent with the earlier Georgia State analysis. They also recommend that the State of Ohio investigate appropriate alternatives to the state's current tax policies. One such alternative would be a Land Tax on commercial and industrial land, which could replace a part of the revenues lost through the elimination of the Tangible Personal Property Tax. Another advantage of the Land Tax is its encouragement of the efficient use of land in all parts of the state. In this sense, the Land Tax could conceivably help to reduce urban sprawl and assist with farmland preservation.

At the present time, however, the Land Tax is viewed as inconsistent with the Ohio Constitution. Changes to the Constitution would be required to make the tax possible. It is expected that the real estate community and landowners would raise serious objections to increasing their tax payments. Both the EDSAC and the study team have concluded that Ohio is not ready for the Land Tax at this time.

Setting the Land Tax proposal aside, the Hill and O'Brien analysis provides an extremely useful analysis of Ohio's tax system. The results of the analysis have given support to our recommendation that the Tangible Personal Property Tax on business inventories and equipment be eliminated.

The Hill and O'Brien analysis, as well as the earlier Georgia State analysis, raises the issue of whether the business tax burden in Ohio should be spread among different types of businesses and industries in Ohio. Manufacturing has paid the largest share of these taxes historically. At the same time, manufacturing industries place the greatest demands on state and local government for all types of public services. In other words, manufacturing provides the greatest economic benefit to the state economy, but it also creates the greatest share of public costs. The service sector is the fastest growing component of the Ohio and national economies. Are the public costs of this service sector growth also rising? If so, should the State of Ohio consider placing greater tax demands on the service sector? If so, which service industries should pay greater taxes?

Research conducted by Don Iannone for this study indicates that the taxation of the Internet and electronic commerce is a lively national debate. All levels of government--federal, state, and local--believe they should be permitted to tax the growing Digital Economy. The outcome of this debate is uncertain at this time. According to Iannone, the State of Ohio is not yet ready to provide adequate answers as to how it will address this important taxation issue. In its haste to find new sources of tax revenues, the state must avoid creating a tax disadvantage for itself when competing for emerging industry sectors. Economic forecasts prepared by Iannone and Regional Financial Associates for Ohio indicate that manufacturing will continue to slip as a source of jobs and, potentially, wealth in Ohio. These effects have already been felt as a result of state's manufacturing industries undergoing restructuring over the past two decades. This points to the need for greater economic diversification within the state's economy over the next 10 years.

Each of these issues should be considered by the State of Ohio as it fashions new strategies for taxation and economic development.

TAIM Simulations on Taxation

At the request of the Advisory Committee, a TAIM Model analysis was conducted of how Ohio's competitive position would be affected by changes in the Ohio Tangible Personal Property Tax. The results are presented below

Introduction

In Peters and Fisher's earlier report, *Ohio's Business Incentive Programs: Their Value to Firms and Their Effects on Ohio's Competitive Position*, the authors made the following recommendation:

> State policy should focus on an even-handed, across-the-board approach to making the state's tax system reasonably competitive. The "sore thumb" in Ohio's tax system, at least for manufacturing and wholesale firms, appears to be the property tax burden on inventories. If this tax, and perhaps the property tax on machinery and equipment as well, were reduced or phased out, all locations in the state would be much more competitive. At the same time, such tax reductions benefit equally existing plant and equipment, plant expansions on site, and plant relocations.

The purpose of this analysis is to examine the implications of reducing or eliminating the personal property tax on Ohio manufacturers. At the same time, some existing incentive programs would presumably be eliminated. Certainly if the state were to eliminate all or most of a firm's personal property taxes, local abatements would be much less important, and arguably the elimination of property taxes on machinery and equipment would make the M&E tax credit unnecessary. The researchers therefore examine how various combinations of policies such as these would affect the competitiveness of Ohio's tax and incentive system.

Changes in tax policy and incentive programs were analyzed using the Tax and Incentive Model (TAIM). A description of the model and of the industrial sectors included can be found in the authors' previous report, *The Ohio Enterprise Zone Program: Results and Analysis Using the TAIM Model*. The primary purpose of the model simulations is to determine how policy changes would affect Ohio's competitive position for new business investment. To do this, they examined, for 29 representative firms, how the tax and incentive systems in Ohio and 10 competing states affect these firms' rates of return on investment in a new plant located in each of the states.

The 10 competing states are: Indiana, Kentucky, Michigan, North Carolina, Pennsylvania, South Carolina, Tennessee, Texas, Virginia, and West Virginia. In all comparisons, the researchers included state and local corporate income taxes, property taxes (including property tax abatements in those states where they are typically granted

outside of enterprise zones), and state and local sales taxes on machinery and equipment and on fuel and electricity. Local tax rates are averages for the state as a whole, where that information is available; otherwise, they are averages of rates found in the larger cities in the state, typically those over 25,000 population. While there are substantial differences in tax rates among localities within any state, broad comparisons of one state with another are best made using a local property tax rate that approximates the average rate paid by industrial property in each state.

The model results indicate the effective state-federal tax rate on income from a new plant (of a size typical of each of the 29 manufacturing sectors modeled) assuming that labor, energy, transportation and other costs are the same in all 11 states, and that only taxes and tax incentives vary. Differences in overall tax rates measure the effect of each state's tax and incentive system on the firm's bottom line.

The effective tax rates are equal to the total taxes attributable to the new plant (the sum of federal corporate income taxes and state/local corporate income, sales, and property taxes), divided by the before-tax income generated by the plant. The effective tax rate includes income taxes paid to other states and the federal government in order to capture the important interactions among income taxes brought about by the deductibility of state and local taxes. That is, since state and local taxes can be deducted from taxable income for federal purposes, any *reduction* in state or local tax costs *raises* federal taxable income and hence federal taxes. Part of the state or local tax cut ends up in the federal treasury rather than in the firm's bank account.

Personal Property Taxes in Ohio and Other Major Manufacturing States

The researchers examined how personal property of manufacturing firms is taxed in Ohio and in the other 24 leading manufacturing states plus West Virginia. Seven of the 25 states exempt all classes of personal property; only real property is taxed (see Table 47). Of the remaining 18 states, 11 exempt inventories completely, and another two tax some inventories (such as finished products) but not others. Ohio is one of only 5 states among the 25 that tax inventories fully. Ohio is in the majority in taxing manufacturing machinery and equipment (16 of the 25 do so) and other personal property (furniture and fixtures, computers and office machines, transportation equipment, and other non-manufacturing equipment). Of the 18 states that do have a tax on personal property, only two provide a special exemption for manufacturing machinery and equipment; three exempt transportation equipment.

Table 47
Taxation of Personal Property in Leading Manufacturing States, 1997

State	Inventories	Manufacturing Machinery & Equipment	Other Personal Property
Competitor States			
Ohio	Taxed	Taxed	Taxed
Indian	Taxed	Taxed	Taxed
Kentucky	Majority Exempt	Exempt	Taxed
Michigan	Exempt	Taxed	Taxed*
North Carolina	Exempt	Taxed	Taxed
Pennsylvania	Exempt	Exempt	Exempt
South Carolina	Exempt	Taxed	Taxed
Tennessee	Part Exempt	Taxed	Taxed
Texas	Taxed	Taxed	Taxed
Virginia	Exempt	Taxed	Majority Exempt
West Virginia	Taxed	Taxed	Taxed
Other Top Manufacturing States			
Alabama	Exempt	Taxed	Taxed
California	Exempt	Taxed	Taxed
Connecticut	Exempt	Taxed	Taxed
Florida	Exempt	Taxed	Taxed*
Georgia	Taxed	Taxed	Taxed
Illinois	Exempt	Exempt	Exempt
Iowa	Exempt	Exempt	Exempt
Massachusetts	Exempt	Exempt	Exempt
Minnesota	Exempt	Exempt	Exempt
Missouri	Exempt	Taxed	Taxed
New Jersey	Exempt	Exempt	Exempt
New York	Exempt	Exempt	Exempt
Washington	Exempt	Taxed	Taxed
Wisconsin	Exempt	Exempt	Taxed*
Counts for all 25 States			
Number taxing fully	5	16	14
Number taxing partially	2	0	4
Number exempting fully	18	9	7

*Except for transportation equipment

While exemptions are important, the real test is the overall property tax burden on manufacturers. Table 48 provides a breakdown of personal property taxes before the application of abatements across the 11 states analyzed. The numbers reported are gross taxes paid over the 20-year period, and discounted at an annual rate of 10%. To simplify the analysis the numbers reported are weighted averages with each of the 29 industrial sectors counting in proportion to the sector's share of Ohio employment. Data on total property taxes (personal and real) are also provided.

Table 48
Property Taxes in Ohio and Competing States, 1997, Without Abatements*

State	Inventories $	Mfg. M&E $	Other M&E $	Total Personal Property $	Rank	Total Property Taxes $	Rank
Ohio	663,045	834,646	121,134	1,618,824	9	2,118,921	7
Indiana	600,573	1,433,534	0	2,034,107	10	2,911,737	10
Kentucky	175,567	69,906	100,866	345,529	2	684,558	1
Michigan	0	1,099,439	150,081	1,249,521	6	1,942,989	5
North Carolina	0	547,217	79,103	636,320	3	967,476	2
Pennsylvania	0	0	0	0	1	3,039,493	11
South Carolina	0	1,165,561	207,128	1,372,689	7	2,251,900	8
Tennessee	208,807	522,454	97,865	829,126	4	1,415,540	3
Texas	929,635	1,051,742	161,970	2,143,347	11	2,844,316	9
West Virginia	0	1,183,745	22,160	1,205,905	5	1,535,954	4
Virginia	656,402	807,295	115,960	1,579,656	8	2,074,600	6

*Annual gross property taxes paid using state average property tax rate (NPV of property taxes annualized over 20 year at 20%). Averaged over 29 manufacturing sectors (sectors weighted by share of manufacturing employment in Ohio).

Ohio's pre-abatement personal property tax ranking is poor (9th out of 11)—in large part, this is a consequence of the tax on inventories. Only six of the 11 states tax inventories (fully or partially), and of these states Ohio taxes considerably higher than the mean ($.54 million). Of other personal property, 10 states tax manufacturing machinery and equipment. Of these, Ohio taxes very slightly below the mean ($.83 million as opposed to $.87 million). Moreover, Ohio's tax burden on other machinery and equipment is very close to the average of the nine states that tax this category. Ohio's total property tax rank is slightly better (7th) mostly because the average Ohio tax on real property is far below the average of all 11 states ($.5 million as opposed to $.8 million). Ohio ranks 5th in terms of taxes on real property.

Table 49 provides a similar set of numbers—gross property taxes paid over the 20-year period—but after the application of abatements (and in the case of Indiana, after property tax exemptions). The results reported in Table 49 do not include discretionary payments made in lieu of property taxes. Such payments may reduce significantly the net worth of abatements. Nevertheless, we have found that cross-state data on such payments are very limited, so that such payments cannot be reliably estimated.

Table 49
Property Taxes in Ohio and Competing States, 1997, With Typical Abatements in Enterprise Zone*

State	Inventories $	Mfg. M&E $	Other M&E $	Total Personal Property $	Rank	Total Property Taxes $	Rank
Ohio	283,884	357,355	51,864	693,102	5	907,220	3
Indiana	-	809,371	0	809,371	7	1,367,169	7
Kentucky	175,567	69,096	100,866	345,519	3	684,558	2
Michigan	0	266,404	36,366	302,770	2	470,803	1
North Carolina	0	547,217	79,103	626,320	4	967,476	4
Pennsylvania	0	0	0	0	1	2,137.736	10
South Carolina	0	625,566	111,157	736,662	6	1,208,496	5
Tennessee	208,807	522,454	97,865	829,126	8	1,415,540	8
Texas	929.635	830,395	127,883	1,887,912	11	2,441,357	11
West Virginia	0	1,183.745	22,160	1,205,905	10	1,535,934	0
Virginia	425,852	523,747	75,231	1,024,830	9	1,345,934	6

*Annual net property taxes paid using state average property tax rate (NPV of property taxes annualized over 20 year at 20%). Averaged over 29 manufacturing sectors (sectors weighted by share of manufacturing employment in Ohio). Assumes typical abatement schedule (where applicable), including enterprise zone abatements in Ohio, Indiana and Michigan.

The abatement schedules applied are "typical" of each of the states in question. Indiana is the only state where the real and personal abatement schedules were different. Ohio's ranking on personal property taxes improves four places, to 5th; its overall property tax ranking also improves four places, to 3rd. Ohio's tax burden on inventories is now much below the average for all states with this tax ($.4 million). The same is true for manufacturing machinery and equipment ($.57 million); however, Ohio taxes on other machinery and equipment are slightly higher than the mean for states taxing this category. Clearly, the abatements available in Ohio enterprise zones significantly improve the competitiveness of the state's tax climate for new investment. In particular, abatements help mitigate the impact of the state's tax on inventories.

Sectoral Effects of Personal Property Tax Reductions

Three alternatives for reducing personal property taxes were examined for this report:

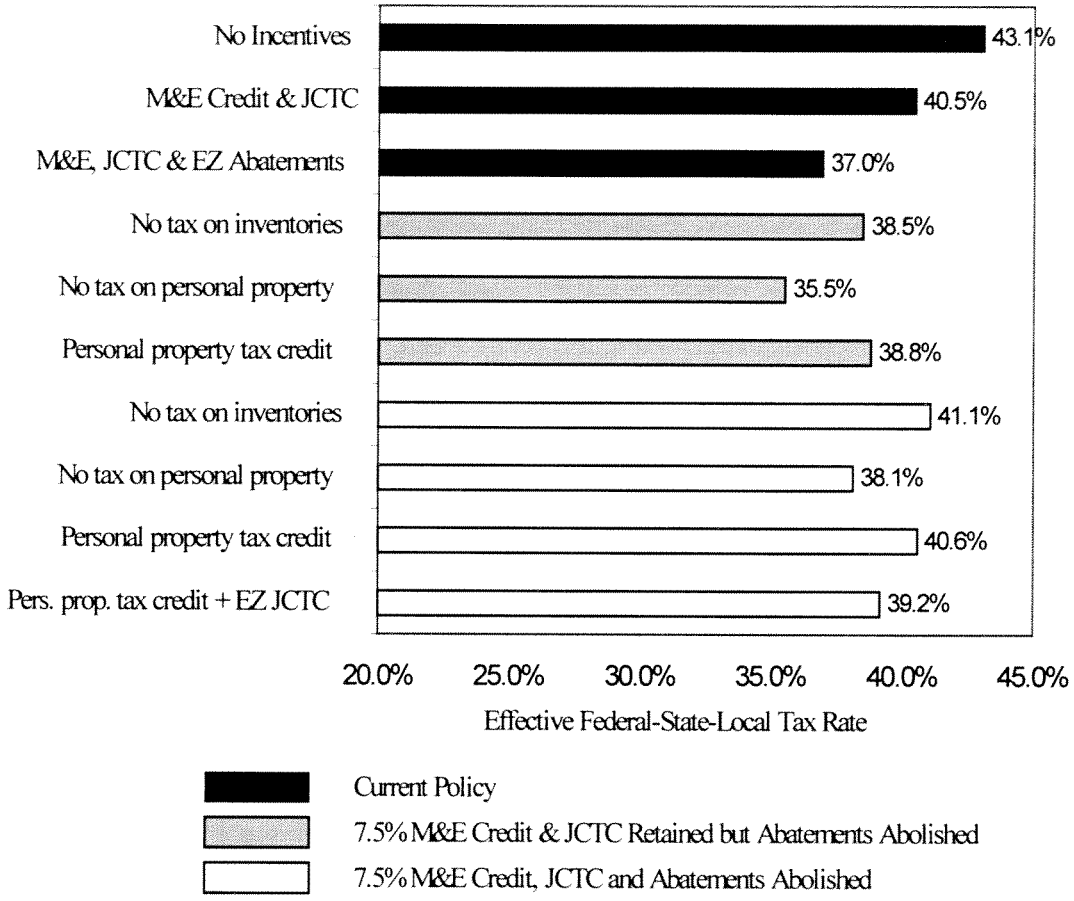
a) Elimination of the property tax on inventories.
b) Elimination of all personal property taxes.
c) A non-refundable corporate franchise tax credit equal to 50% of a firm's total Ohio personal property tax liability.

The last alternative was combined with another feature: the elimination of the deduction for state income taxes. This was included as a way to help finance the cost of property tax relief by eliminating a tax preference that very few states offer and that probably does little to attract firms to the state, compared to the disincentive provided by inventory taxation. Obviously any number of policy alternatives could have been simulated, such as credits for larger or smaller percentages, or only for the tax on inventories, or a fully refundable credit (like the JCTC), etc. We chose one for illustrative purposes that seemed like a reasonable alternative that would place the burden of financing personal property tax relief on the state rather than localities.

These various forms of property tax relief were then combined with two assumptions about which current incentive programs would be eliminated: (1) enterprise zone abatements only, or (2) enterprise zone abatements and the state Machinery and Equipment (M&E) tax credit and Job Creation Tax Credit (JCTC). We also included a simulation with the personal property tax credit substituted for all existing credits, but with a more generous version of the JCTC available to firms in enterprise zones. This is to retain some competitive advantage for zones, or at least for zones established under the distress criteria. It is more generous in that 75% of withholding taxes (rather than the 60% typical currently) are credited for 10 years.

Figure 6 illustrates the average effect of these various policy changes by comparing the effective federal-state-local tax rate on new plant income in Ohio under present policies with the tax rates under the alternatives. These are tax rates averaged over the 29 sectors modeled. Tax rates by sector can be found in the appendix. The tax rate with no incentives is 43.1%; eliminating all personal property taxes (while abolishing all credits) would lower the tax rate to 38.1%, a very sizeable reduction but not quite as attractive for new investment as the current combination of incentives in enterprise zones, which lowered the tax rate to 37%. Eliminating personal property taxes would clearly be more valuable than the state credits for firms considering non-zone locations, where the effective tax rate is over 2 percentage points higher (40.5%). Eliminating the tax on inventories (even while abolishing all credits) produces a significant tax rate reduction, from 43.1% to 41.1%, but would not be as generous as existing programs for firms inside or outside of enterprise zones.

Figure 6
Tax Incentives Versus Personal Property Tax Relief in Ohio:
Effect on Tax Rate on New Investment (29 Industry Average)



The changes in incentives and personal property taxation examined here would clearly have different effects on different kinds of firms. Inventories are much more important for some firms than others; the same can be said for manufacturing machinery and equipment. Table 50 below identifies the manufacturing industries that would be most advantaged (the largest tax rate reductions or the smallest tax rate increases) by the various policies, and the industries that would be least advantaged.

Table 50
Sectoral Effects of Replacing Incentives with Personal Property Reductions

Enterprise Zones: Abatements Abolished and Replaced with:				
	No Inventory Tax		No Personal Property Tax	
Rank	Sector	Change	Sector	Change
	Most Advantaged Sectors			
1	Lumber & wood products	-1.9%	A-V & electronic components	-4.4%
2	A-V & electronic components	-1.6%	Lumber & wood products	-3.4%
3	Leather & leather products	0.2%	Paper & allied products	-2.6%
4	Apparel & other textile products	0.6%	Agricultural chemicals	-2.0%
5	Communications equipment	0.6%	Primary metal industries	-1.8%
6	Medical instruments & supplies	0.6%	Plastics products	-1.8%
7	Computer & office equipment	0.6%	Stone, clay & glass products	-1.5%
8	Drugs	0.8%	Motor vehicles & equipment	-1.5%
	Least Advantaged Sectors			
22	Stone, clay & glass products	2.0%	Fabricated metal products	-0.8%
23	Furniture & fixtures	2.1%	Apparel & other textiles	-0.8%
24	Plastics products	2.1%	Instruments & related products	-0.8%
25	Primary metal industries	2.1%	Communications Equipment	-0.7%
26	Motor vehicles & equipment	2.2%	Meat products	-0.6%
27	Food & kindred products	2.3%	Leather & leather products	-0.6%
28	Grain mill products	2.8%	Medical instruments & supplied	-0.5%
29	Paper & allied products	3.1%	Drugs	-0.5%

Non Zone Locations: M&E Credit and JCTC Abolished and Replaced With:				
	No Inventory Tax		No Personal Property Tax	
Rank	Sector	Change	Sector	Change
	Most Advantaged Sectors			
1	Apparel & other textile products	-3.4%	Apparel & other textile products	-4.7%
2	Leather & leather products	-2.1%	Primary metal industries	-3.9%
3	Farm & construction machinery	-0.9%	Paper & allied products	-3.7%
4	Instruments & related products	-0.9%	Grain mill products	-3.4%
5	Electric & electronic equipment	-0.8%	Appliances & electric lighting	-3.2%
6	Industrial machinery	-0.8%	Farm & construction machinery	-3.1%
7	Appliances & electric lighting	-0.8%	Food & kindred products	-3.0%
8	Medical instruments & supplies	-0.5%	Agricultural chemicals	-2.9%
	Least Advantaged Sectors			
22	Grain mill products	0.8%	Refrigeration &service machinery	-2.1%
23	Furniture and fixtures	0.9%	A-V & electronic components	-2.1%
24	Agricultural chemicals	1.0%	Medical instruments & supplied	-1.7%
25	Stone, clay & glass products	1.1%	Drugs	-1.7%
26	Plastics products	1.2%	Communications equipment	-1.6%
27	Paper and allied products	2.0%	Motor vehicles and equipment	-1.1%
28	Printing and publishing	2.4%	Lumber and wood products	-1.0%
29	Motor vehicles & equipment	2.6%	Printing and publishing	-0.3%

The tax and incentive changes discussed in this report could have significant effects on Ohio's competitive position for new investment, at least to the extent that taxes bear on the investment decision. To assess these effects, Peters and Fisher compared effective tax rates on new investment in Ohio with each of the 10 competing states.

The tax rates were calculated for two kinds of locations (in terms of incentives available) in each of the 11 states: (1) a site where the plant would receive only a minimal incentive package consisting of those tax incentives generally available throughout the state; and (2) a site where the plant would receive the most generous incentive package available, including enterprise zone incentives and other geographically targeted incentives (such as Ohio's 13.5% investment credit or Kentucky's KREDA credits for rural areas), as well as discretionary state incentives (such as Michigan's MEGA credit). Table 51 shows the incentives modeled for each location. The sectors most advantaged by eliminating just the inventory portion of personal property taxes include some rather basic industries that are not very significant in Ohio, such as lumber, textiles, and leather. However, several more "high tech" sectors are also advantaged, such as audio-visual and electronic components, instruments, and computer and office equipment. The firms least advantaged by the inventory exemption tend to be more traditional heavy industries such as motor vehicles, plastics products, and furniture. The picture is rather different if all personal property taxes are eliminated. Both high tech and basic sectors can be found among the most advantaged and the least advantaged. What is clear is that the sectoral effects are substantial. In each list the tax rate reduction for the most advantaged sector is 4 to 6 percentage points greater than for the least advantaged sector.

Table 51
Tax Incentives Modeled in Ohio and Ten Competing States: Generally Available Incentives and the Maximum Package Available in an Enterprise Zone

State	General/ Maximum	Non-Enterprise Zone Incentives Included	Zone Incentives
Indiana	General	EDGE (Econ. Devel. For a Growing Economy) credit	No
Indiana	Maximum	EDGE credit	Yes
Kentucky	General	ITC & Unemployment credit: KIDA*	No
Kentucky	Maximum	ITC & Unemployment credit: KREDA*	Yes
Michigan	General	Standard local abatements	No
Michigan	Maximum	Renaissance zone abatements, MEGA credits	Yes
North Carolina	General	M&E, Job, & Training Credits for a Tier 5 county**; Business Credit	NA
North Carolina	Maximum	M&E, Job, & Training Credits for a Tier 1 county**; Business Credit	NA
Ohio	General	7.5% M&E credit; JCTC	No
Ohio	Maximum	13.5% M&E credit; JCTC	Local only
Pennsylvania	General	Abatements; Job Credit; Employment Incentive Credit	No
Pennsylvania	Maximum	Abatements; Job Credit; Employment Incentive Credit	Yes

Table 51 Continued

Tax Incentives Modeled in Ohio and Ten Competing States:
Generally Available Incentives and the Maximum Package Available in an Enterprise Zone

State	Maximum/ General	Non Enterprise Zone Incentives Included	Zone Incentives
South Carolina	General	New Jobs & Withholding Tax Credits for a "Developed" County***; ITC; local abatements	NA
South Carolina	Maximum	New Jobs & Withholding Tax Credits for a "Least Developed" County***; ITC; local abatements	NA
Tennessee	General	Industrial Machinery Credit; Jobs Credit	NA
Tennessee	Maximum	Industrial Machinery & Jobs Credits: Distressed County	NA
Texas	General	Local abatements	No
Texas	Maximum	Local abatements	Yes
Virginia	General	Major Business Facility Job Credit	No
Virginia	Maximum	Major Business Facility Job Credit	Yes
West Virginia	Gen/Max	Business Investment & Jobs Credit; Industrial Expansion Credit, local abatements	NA

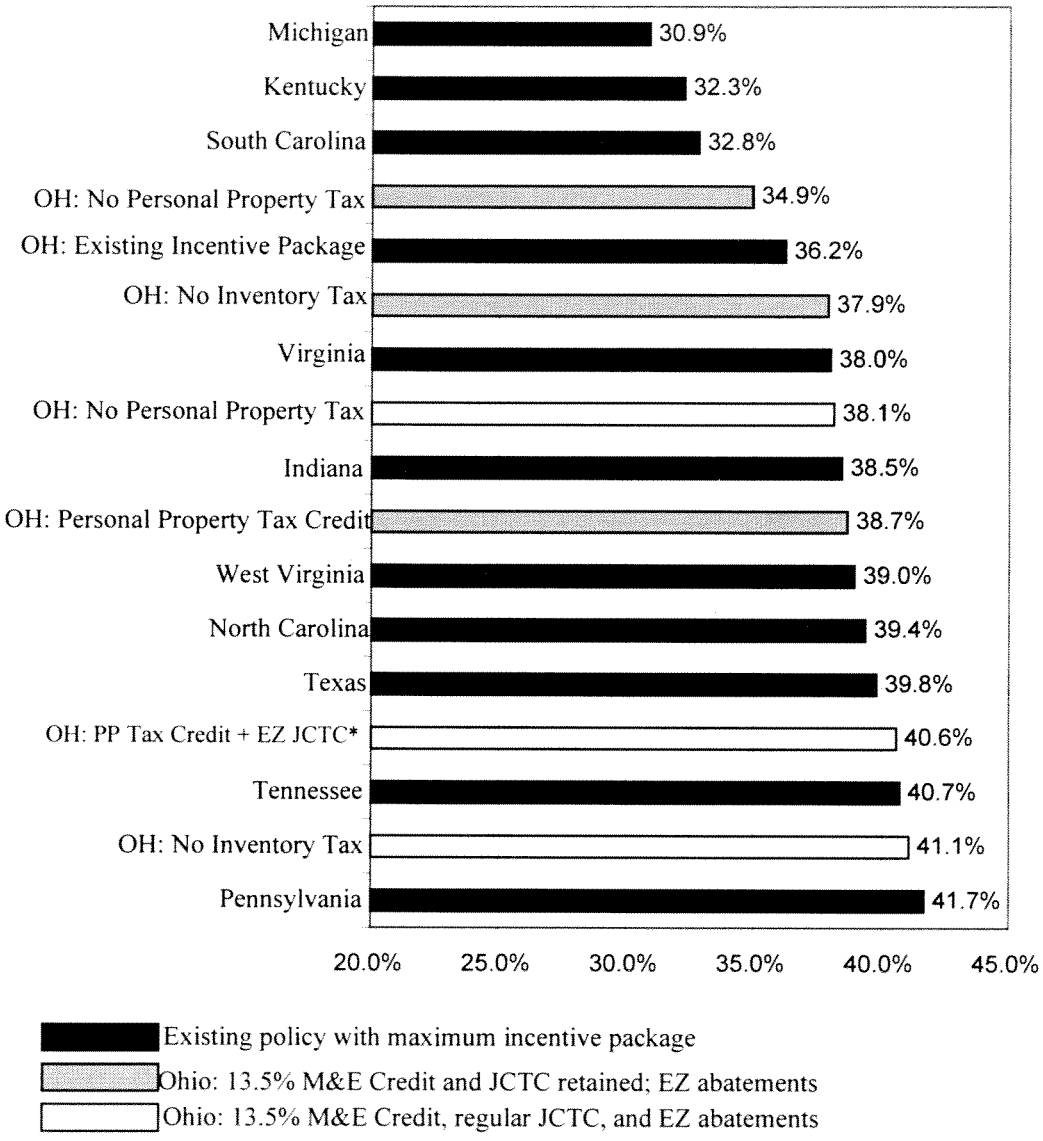
NOTE: ITC = Investment Tax Credit; JCTC = Job Creation Tax Credit; M&E = machinery and equipment.
*KIDA=Kentucky Industrial Development Authority; KREDA = Kentucky Rural Economic Development Authority. Counties qualifying under KREDA receive larger incentives. All other counties qualify as KIDA.
**Tier 5 (the most developed counties) receive the lowest credits; Tier 1 counties receive the maximum.
***There are four categories. "Developed counties" receive the lowest incentives; "Least Developed" counties receive the highest incentives.

Effects of Tax Changes on Ohio's Competitive Position

The tax rates in the most generous incentive locations in some states should be viewed with caution. For example, the maximum package in Kentucky would be available at a site, which consists of an enterprise zone in a rural area qualifying for KREDA incentives. However, there are only 10 enterprise zones in Kentucky, and only 3 of the 10 are in counties qualifying for KREDA. Thus the package is generous, but rare. Michigan's most generous package includes the MEGA credits (which are awarded to a relatively small number of large plants each year, 15 in 1996) within one of the 16 renaissance zones. Again, such a combination is probably not common. Ohio, on the other hand, has a very large number of sites qualifying for enterprise zone abatements as well as the 7.5% or 13.5% ITC and the JCTC.

Figure 7 shows the results (averaged over the 29 sectors) with maximum incentive packages in each state. That is, it shows the effective tax rate after receiving enterprise zone or other distressed area incentives. Ohio's existing zone package (including abatements, the M&E Credit, and the JCTC) ranks 4th among the 11 states. Abolishing personal property taxes while retaining the M&E and JCTC (but ending abatements) would improve the tax rate but leave Ohio locations still ranked 4th. Abolishing only inventory taxes (while ending abatements and retaining the two state credits) would also leave the state in 4th position.

Figure 7
Effective Federal-State-Local Tax Rates in Ohio and Competing States, with Maximum Enterprise Zone Incentive Package (29 Industry Average)

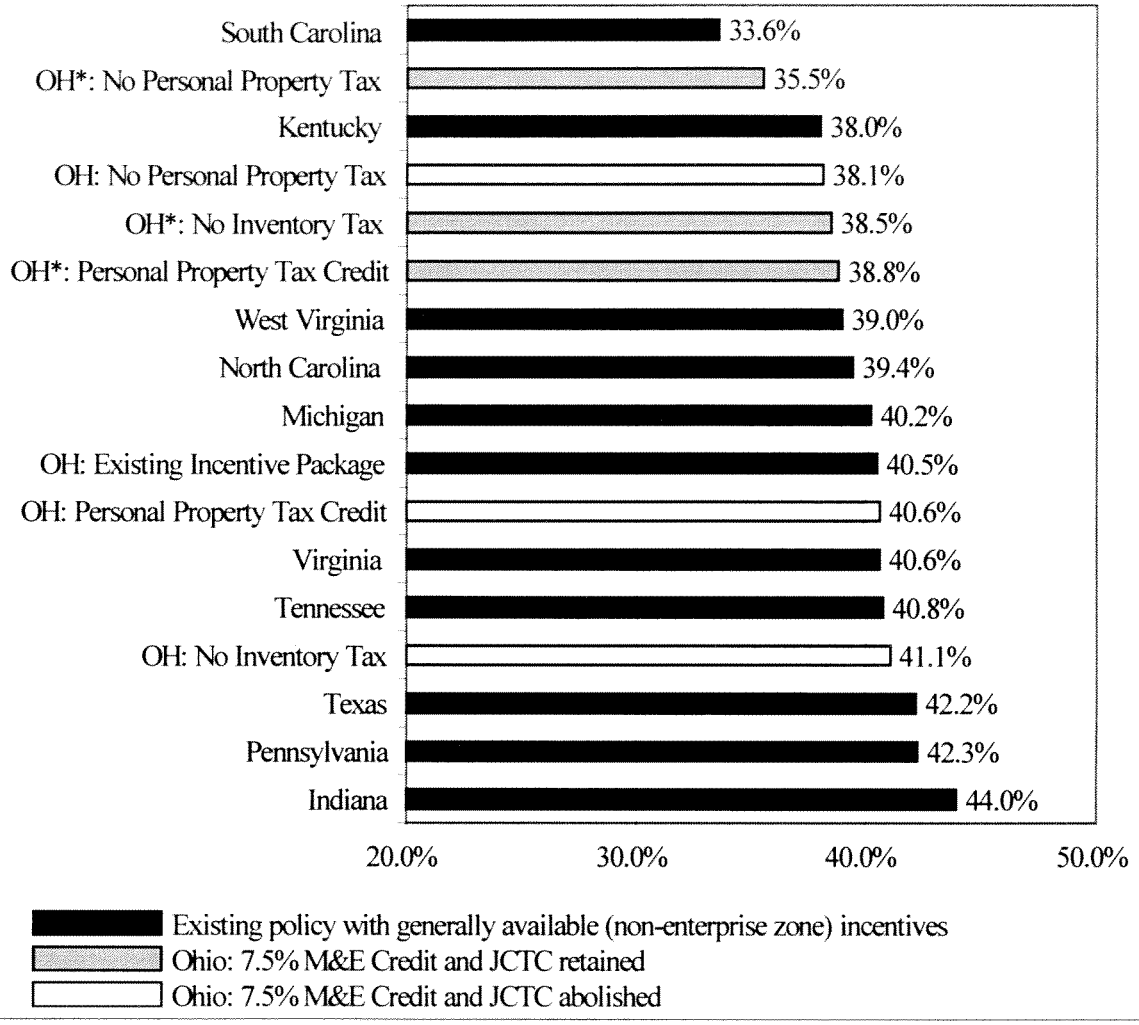


*The EZ JCTC is a more generous version of the existing JCTC, but would be only within Enterprise Zones.

Abolishing all personal property taxes and all credits would leave Ohio in a virtual tie with Virginia for 4th. On the other hand, to eliminate all credits and abatements and substitute an exemption for inventories would leave Ohio zone locations with a tax rate of 41.1%, second highest after Pennsylvania.

Figure 8 compares locations among the 11 states without enterprise zone or other distressed area incentives. Here the researchers include comparisons with the three personal property tax reduction alternatives under two scenarios: the existing M&E Credit and JCTC are retained, or they are eliminated. Ohio's existing incentive package (the two credits) would leave it ranked 6th among the 11 states at an average tax rate of 40.5%. Four of the personal property tax reduction alternatives would boost that ranking to 2nd or 3rd. These significant changes in position are due to the high property taxes in Ohio without any enterprise zone abatements, and the competitiveness of Ohio's other taxes (once personal property tax relief is instituted). It needs to be emphasized, however, that in these comparisons there is really not that much separating the states, and the various Ohio policy alternatives, in the middle positions in the chart.

Figure 8
Effective Federal-State-Local Tax Rates in Ohio and Competing States, with Generally Available (Non-Zone) Incentives (29 Industry Average)



Chief Findings: TAIM Tax Simulations

Peters and Fisher examined what effects reductions in personal property taxes, in lieu of continuing certain incentive programs, would have on the tax rates on new manufacturing investment in Ohio, and hence Ohio's competitive position for new investment. What these analyses do not show is how such tax reductions would affect existing manufacturing firms in Ohio. Unlike the incentives they would replace, personal property tax reductions would lower the tax burden on all existing manufacturing facilities. This means, of course, that a given reduction in the tax rate on new investment can be

achieved only at a much greater cost to state and local governments in terms of lost revenue. To soften this effect, the reductions in personal property taxes could be phased in over a period of years; this could be more easily accomplished with the credit rather than the exemption alternatives.

The advantage of a personal property tax reduction policy is that it reduces substantially the local tax burden on manufacturers and makes inter-local differences in taxation within the state of Ohio much less significant. Unlike the M&E credit, which is based on the value of machinery and equipment rather than the property taxes paid on that capital, a state credit for personal property taxes would be larger in high-tax-rate locations, which would help to counteract the disadvantages of high-cost, high-tax places. Combined with the elimination of tax abatements, available in zone locations but not elsewhere in Ohio, these policies would go a long way towards reducing tax competition among localities within the state of Ohio, while rendering the state as a whole more competitive in terms of the tax burden on manufacturers.

Reducing personal property taxes across the board, while eliminating incentives for new capital investment, would also reduce the advantage of new facilities over old. Existing older manufacturing facilities, which tend to be located in older and higher tax cities, would benefit substantially from the reduction in personal property taxes. We would avoid using tax incentives on new plant and equipment to render these older facilities prematurely obsolete. With lower taxes, such facilities are more likely to remain profitable at their existing locations.

CHAPTER 20 - CSU STUDY TEAM RECOMMENDATIONS

Purpose

This chapter presents the study team's final recommendations on the project. These have been reviewed with the EDSAC, Governor Taft's Office, the Ohio Department of Development, and Ohio's Legislative Budget Office.

Credits

This chapter was prepared by Donald Iannone from CSU's Urban Center. The recommendations stem from the various analyses conducted for the project.

Overall Conclusion

Ohio has followed an aggressive business-oriented economic development strategy that has relied fairly heavily upon incentives. This has been the case because Ohio has had to follow this strategy because of serious state economic climate deficiencies, not the least of which is the Tangible Personal Property Tax.

This strategy has contributed some to Ohio's economic development success during the 1990s. Business, local government, and other stakeholders have been generally in agreement with this strategy, although Ohio's development partners are clearly looking for greater leadership in approaching economic development in a more global, comprehensive, and integrated manner in the future.

Ohio's current approach mirrors the current national economic development marketplace. Ohio has used its business incentive programs in line with current overall legislative and policy requirements and expectations, although we find these expectations to be too broad and insufficiently performance-based. The State of Ohio has a lot of hard work ahead in creating and implementing a performance-based economic development system for the future.

It is the study team's overall conclusion that, despite their existing problems, Ohio is ***NOT READY*** *to give up its economic development incentive programs and rely solely on tax policies or the private marketplace to provide sufficient economic opportunities for its business sector and private citizens. To haphazardly discard these programs, or as some say, "unilaterally disarm," is both political and economic suicide.*

It is our opinion that the issue goes far beyond making a choice between public incentives or improving state business tax policies. The simple answer is that in Ohio's case both are necessary. Simply choosing sides on this debate will not solve the underlying problems

associated with the Ohio economy and how its major stakeholders wish for it to treat them.

We believe that Ohio officials have much hard work ahead in the next couple years to get their programs on a stronger performance track. Moreover, the State of Ohio has to face some very complex decisions about future economic priorities. The State's current model for economic development is incapable of recognizing and dealing with the complexities raised by this report, which leads us to conclude that the central deficiency to be remedied is the lack of strategic direction. Once this has been established, the State of Ohio will know more precisely how its economic development finance programs should be used.

Ohio is both an "over-achiever" and an "under-achiever" when it comes to economic development. The state has exceeded most in-state and national economic forecasters expectations in terms of business growth and job creation. Yet, many parts of the state, both urban and rural areas, have under-achieved in terms of economic development. The State of Ohio has many resources that it currently does not use effectively to promote and assist economic development. The leading one is the State of Ohio's overall budget, which like most states reflects hard political realities. The starting point for Ohio's new economic development strategy should be to view the whole of state government, all $36 billion of it annually, as an intentional and unintentional actor in the large, complex, and changing Ohio economy. This leads us to the recommendations made regarding a comprehensive state development budget and other things that could help state officials to think and act more holistically about the state's primary economic interests.

Action Recommendations Overview

The study team has identified a set of strategic actions that will help the State of Ohio address three major goals designed to make the state's economic development programs more "performance-based." (See definition below.)

These three goals are to:

1. Improve the accountability and performance of the state's current economic development programs. While state officials have made progress in this area, more is needed in the future, especially in increasing the economic return produced by these programs for state and local government.

2. Contribute to long term improvements in Ohio's business and economic climate. Necessary actions include reducing and/or eliminating the Tangible Personal Property Tax, improving the balance among Ohio industries paying taxes, and improving the balance between business incentives and reliance upon business tax policy changes.

3. Help position Ohio with a more cost-effective, better strategically focused, and more realistic economic development strategy for the future. We believe

that the State of Ohio needs to develop and implement a comprehensive strategy for economic development that incorporates the eight recommendations made in this report.

What does it mean to make economic development programs more performance-based? Economic development programs are defined as "performance-based" when they meet the following six conditions:

1. They are guided by clear, unambiguous strategic goals.

2. Their performance is judged in terms of their intended and unintended effects in the short, intermediate, and long terms.

3. They consider the industry, geographic, population, labor market, state and local governmental finance, and environmental impacts of using the programs.

4. They are budgeted annually and account for their full costs and benefits to the State of Ohio and Ohio local governments.

5. They strive at a minimum to achieve breakeven financial performance for state and local government, considering their full costs and benefits.

6. They provide adequate legal recourse for state and local government against those companies that do not meet the requirements of their negotiated incentive agreements.

The recommendations fall into three implementation action categories:

1. Short term actions over the next 12-18 months to strengthen existing economic development programs' performance.

2. New ongoing management and budgetary policies and strategies instituted over the next 18-30 months to strengthen state program performance and to increase their impact on overall statewide economic development goals.

3. New economic development initiatives that address concerns and priorities not receiving sufficient state government attention through existing programs. These actions should also be undertaken in the next 18-30 months.

Note: The timeframes refer to the time required to devise and begin implementation of the action initiatives. Most immediate progress should be encouraged in the short-term action category.

Group 1: Recommended Short Term Actions

The State of Ohio should act decisively to improve its existing economic development programs over the next 12-18 months. These actions **SHOULD NOT WAIT** until the state addresses its long-term business tax policy needs. Although, the study team does concur with the Ohio Senate's recent proposal for a phased reduction in the inventory portion of the Tangible Personal Property Tax, starting in the next biennial budget. These study results have helped to support this proposal by the State of Ohio. Ohio officials should take the following immediate steps relative to the OEDS study results:

1. The Economic Development Study Advisory Committee (EDSAC) accepted the final study report as complete and worthy of further investigation for implementation by the State of Ohio at its May 3, 1999 meeting. This action signifies the official completion of the Advisory Committee's mission and responsibility relative to this project. We believe that the next step is for the Committee Chairman to:
    - Communicate in writing the Advisory Committee's overall recommendations to the State of Ohio no later than June 18, 1999.
    - Arrange for official briefings on the final study results with the Governor, the Ohio General Assembly, and other appropriate bodies. These briefings should be conducted in July and August of this year.

2. The OEDS Advisory Committee should convey in writing to Ohio Governor Bob Taft and the leadership of the Ohio General Assembly that the Committee encourages the State of Ohio to establish an official joint Administrative and Legislative Implementation Task Force (ITF) to develop agreement on the details of how the study recommendations will be responded to by the State of Ohio. Letters should be requested from Governor Taft and from the leaders of the Ohio House and Senate indicating their commitment to these future discussions. This Task Force should be charged with coming up with a consensus plan for using the recommendations to improve Ohio's economic development programs. This plan should be delivered no later than September 1, 1999. This joint Task Force should be charged with:

    - Clarifying the policy intent and goals to be achieved by the recommendations.
    - Defining the most appropriate legislative and administrative actions required to address the study recommendations.
    - Establishing a specific implementation work plan and timetable.

3. The OEDS Advisory Committee should provide immediate written guidance to the Governor and Legislature on the re-authorization of the Ohio Enterprise Zone Program and the Machinery and Equipment Tax Credit Program. Both programs have been proposed by Governor Taft for five-year extensions in his recent budget proposal. The position of the CSU study team is that re-authorization should ONLY occur if the two programs are re-designed to meet the requirements of the proposed State Comprehensive Development Budget (SCDB) and the State Incentive Management System (SIMS) Model. The CSU team recommends the following actions be taken relative to these two programs:

4. The Machinery and Equipment Tax Credit Program should be extended to December 31, 2002 provided that the program is redesigned to reflect the requirements of the State Incentive Management (SIMS) model, the Comprehensive State Development Budget, the new 5-layer performance measures system, and the new policy justification framework. Once these changes have been made, the program should be submitted to the Legislature to be re-authorized for a 5-year period.

5. The Enterprise Zone Program should be extended until June 30, 2002, during which time the program is redesigned to reflect the requirements of the State Incentive Management System (SIMS) model, the Comprehensive State Development Budget, the new 5-layer performance measures system, and the new policy justification framework. The CSU study team also recommends that the Strategic Development Zone model be given consideration to replace the current Enterprise Zone Program model. The new Strategic Development Zone Program should be authorized for five years, upon meeting these redesign requirements. A plan to coordinate the activities of zones in the same Ohio economic region should be given consideration as well.

6. Appropriate public presentations should be made by the State of Ohio and the CSU study team on the principal study findings and recommendations to state and local officials to inform them about study results, and to gain their input on implementation. Target audiences include:

    - Governor Bob Taft
    - Ohio General Assembly
    - Local government officials
    - Key state and regional business and economic development groups
    - Groups reflecting the general public interest in Ohio

Group 2: New Management and Budgetary Policies and Strategies

The CSU study team is recommending a series of changes in how Ohio develops budgets for and manages its economic development programs. These recommendations fall within the 18-24 month timeframe. During this time, the State of Ohio should prepare implementable plans to accomplish each of these recommendations. Each of these recommendations is described below. These include:

1. Adopt a new policy framework defining eight justifications for state involvement in economic development. The current justification for state intervention in economic development is weak and insufficient to motivate the State of Ohio to take long-term action to strengthen to business and economic climate for economic development. Eight new justifications, or rationales, are identified in the first recommendation. (Recommendation #1)

2. Develop and implement a new performance management system to monitor and evaluate all of the state's economic development programs. The State of Ohio's

current system is very inadequate in assessing the state's economic development performance. A five-layer monitoring and assessment system is recommended. (Recommendation #2)

3. Develop and implement a Comprehensive State Development Budget to provide a fuller accounting of state expenditures on economic development. Presently, the State of Ohio does not give a full accounting of its direct and indirect expenditures on economic development. Foregone business tax revenues are not fully reported as development expenditures, and they should be. On the other hand, the state is not capable of accounting for the larger stream of economic benefits produced by its programs and policies. The proposed Comprehensive State Development Budget will capture this fuller definition of both development costs and benefits. (Recommendation #3)

4. Develop and implement the State Incentive Management System (SIMS) Model to guide the planning, design, management, and evaluation of all state economic development programs on an ongoing basis. The state currently follows a piecemeal approach to incentive program design. In large part, political rules are followed in deciding which development tools the State of Ohio should create and use. The SIMS Model will make this process more rational in the future. It will also ensure that the large picture is considered as programs are planned. (Recommendation #4)

5. Create and implement the Buckeye State Development Fund as a flexible financing pool for businesses and communities to make economic development investments. The fund would initially be capitalized with five of the state's current economic development loan and grant programs. (Recommendation #5)

Group 3: Proposed New Economic Development Initiatives

Four new economic development initiatives are needed to increase Ohio's economic competitiveness in the future. Simply making adjustments to the state's economic development programs is not enough to improve Ohio's competitive position. CSU recommends the following new initiatives:

1. Create and implement the Ohio Quality Jobs Initiative to improve the state's workforce competitiveness. This initiative would motivate a greater number of career-oriented and well-paying jobs to be created in Ohio's goods and services industries. (Recommendation #6)

2. Create and implement the Ohio Productive Growth Initiative to reduce urban sprawl, protect needed rural farmland, and encourage businesses and citizens to follow more productive strategies to grow and develop in the future. This initiative would help put Ohio's future growth on a more productive track in the next decade. (Recommendation #7)

3. Create and implement the Ohio Strategic Industries Initiative to focus future economic development efforts on the state's most important and most promising industries and economic sectors. Eight possible targets are suggested by CSU, but a more in-depth analysis of the best targets of opportunities is recommended in the near future. (Recommendation #8)

Economic Development Finance Mission and Goals

The State of Ohio must adopt appropriate policy goals in guide the future use of its economic development finance programs. Ohio has no such goals at this time. These goals will ensure that the programs perform in line with future expectations and they will ensure greater economic success in the future. The adoption of these goals will also ensure that Ohio's programs can be properly evaluated in the future.

Mission Statement

The CSU team recommends that the following mission statement guide Ohio's economic development financing activities:

The State of Ohio should make strategic investments in those economic development projects that increase state and local economic competitiveness by producing positive-sum economic and fiscal benefits to Ohio communities, regions, industries, and companies.

Strategic Goals

Three goals should be considered under this general mission statement:

Goal 1: Strategically invest state financial resources in economic development projects that directly and indirectly increase the economic vitality and prosperity of Ohio communities and regions.

Goal 2: Strategically invest state financial resources in economic development projects that increase the competitiveness of Ohio companies and enable them to create high-quality jobs and produce additional tax revenues for Ohio communities and regions.

Goal 3: Improve the fiscal performance and accountability of Ohio economic development programs through the implementation of new state policies and a performance-based management system that ensures Ohio achieves its economic development financing mission and goals.

Detailed Study Recommendations

Recommendation 1: Adopt New, More Relevant Justifications for Development

The CSU study team recommends that the State of Ohio adopt a new, more relevant, and more precise set of policy justifications providing rationales why state government should intervene in economic development. We find that Ohio and other states have very weakness policy justification for their economic development efforts. As a result, states have weak overall political support for their economic development programs. This new rationale should recognize the various relevant conditions under which state government should provide economic development assistance. This new set of justifications should overcome the problems with the current "but for" clause used to justify government intervention in economic development. Ohio, like the vast majority of other states, employs the "but for" clause to justify its involvement in economic development. The essence of this justification says that a private investment or development project will not occur unless the public sector takes action to assist the project to move forward.

There are several problems associated with the "but for" justification. First, this rationale is impossible to prove in a truthful sense. Earlier research on economic development issues has failed to prove the validity of this condition. The argument basically boils down to a government official's willingness to take a business executive's word that government investment in the project is absolutely necessary to project success.

Second, because the "but for" clause must be satisfied, the business receiving incentives and the local or state government agency providing the incentives feel forced to exaggerate the benefits produced by the development project. This over-estimation of benefits tendency misleads the public and other stakeholders. It adds to the current confusion about government's role in economic development.

Third, the "but for" clause is a far too general and simplistic justification for government action. It assumes that all development projects should be judged by the same basic single yardstick to determine their value and worth. This is simply unrealistic.

As an alternative, the CSU study team is proposing that the State of Ohio adopt a new economic development policy framework that uses eight (8) justifications for state assistance to economic development:

1. Occurrence of a private market failure.
2. Problem created by an unintended government policy impact.
3. Occurrence of a sudden and severe economic dislocation.
4. Presence of structural barriers impeding the economic advancement of certain population groups (minorities, disadvantaged populations, etc.).

5. Presence of a serious competitive disadvantage impeding economic development.
6. Situation exists that threatens an established or emerging industry that is strategically important to state and local economic vitality.
7. Opportunity exists that offers the potential to produce an overwhelming positive public benefit.
8. Situation exists to stimulate valuable and significant regional, inter-governmental, or public-private cooperation and benefit.

All State of Ohio economic development programs should be expected to use these justifications in determining how state resources should be used to support economic development projects. The State of Ohio should work with local governments in Ohio to adopt this same justification system. A successful performance-based economic development system in Ohio depends upon this agreement by both state and local government.

Recommendation 2: Adopt New Performance Measurement System

It is the opinion of the CSU study team that the State of Ohio currently uses a very limited and imprecise system to monitor and measure the effectiveness, efficiency, and accountability of its economic development programs. While this system has generally met the various legislative reporting requirements set forth, the current system does not permit a much-needed regular assessment of the broader, long-term impacts of these programs on the economic health and well being of Ohio citizens, industries, and geographic areas. In short, Ohio's current approach to performance monitoring and evaluation is insufficient.

The CSU study team recommends that the State of Ohio create and adopt a new performance measurement system that allows for the general and detailed assessment of the individual and combined impact of Ohio economic development programs on:

1. Ohio's major industry sectors, including the most important current industry and economic sectors, and those emerging sectors of the Ohio economy that are likely to play a greater future role in state economic development. This assessment should examine the impact of these programs on both growing and declining industries.

2. Ohio urban and rural regions and communities, including those geographic areas that are experiencing significant economic growth and economic decline.

3. Ohio's major population groups and labor market segments. This assessment should examine impacts on the entire socioeconomic continuum found in Ohio, from the richest to the poorest. It should examine the impact of these programs on major labor market segments, including the self-employed, underemployed, and unemployed.

4. Ohio's major natural resources, including the state's air, water, and land resources. This assessment should identify impacts on the natural environment in both urban and rural areas across the state. Sustainable economic development strategies are receiving much greater attention by communities, regions, and states across the United States and in other countries, such as Canada. Ohio officials should be more concerned about the sustainability of their communities, industries, and natural environment in the future.

5. Ohio's public sector, including state and local government finances, the demand for future public infrastructure and other public services, including education. This issue was one of the major impetuses for this study project.

All State of Ohio economic development programs should be evaluated according to these five sets of impact criteria. The REMI Model, or another equally appropriate economic analysis model, should be purchased by the State of Ohio to assist with this annual economic impact analysis. A second micro-level analysis model, such as the TAIM Model, should be acquired or developed by the state to evaluate public investments in major economic development projects. This second model could be especially valuable in helping state officials decide during major project negotiations how much the State of Ohio should invest in economic development projects. The states of Georgia and Kansas currently require this type of analysis before major incentives are provided. The State of Texas is examining the appropriateness of this requirement at the present time.

The State of Ohio should work with local governments in Ohio in adopting a version of this performance measurement system at the local level. The LOCI Model, developed by Georgia Tech, serves this purpose for Georgia communities. A project-based impact model developed by Wim Wievel, at the University of Illinois at Chicago, has been used by the City of Chicago and other public sector entities. These are just two of many examples of impact analysis models used by local governments.

The State of Ohio should set annual expectations about the state's economic and fiscal return on its economic development programs. At a minimum, the state should set "break-even" as its goal for its various portfolios of investments. This measurement on the cost side should include all direct and indirect expenditures, including foregone state taxes.

Recommendation 3: Adopt Comprehensive State Development Budget

The State of Ohio currently provides only a partial accounting of its spending for economic development as development expenditures. At the present time, these expenditures are limited to the direct spending by Ohio Department of Development programs. While this approach is similar to those used in other states, it fails to account for the strategic overall influence of state government on Ohio economic growth. For advice, Ohio officials should contact North Carolina and Kansas economic development

and budget officials. The unified development budget used by the State of Kansas is an especially useful role model for Ohio officials to examine.

The CSU study team recommends that the State of Ohio adopt a Comprehensive State Development Budget (CSDB) as an annual instrument to provide a full annual accounting of these direct and indirect expenditures. This accounting should include three types of expenditures:

1. Direct and appropriated development expenditures (Department of Development).
2. Indirect, appropriated development-related expenditures by other agencies (Board of Regents, Bureau of Employment Services, Department of Agriculture, Department of Education, Department of Transportation, Ohio Arts and Sports Facilities Commission, other appropriate state departments).
3. Foregone tax expenditures related to development (all business tax incentives creating a cost to state and local governments).

As a part of the state's biennial budget process, the State of Ohio should prepare an assessment of how the CSDB impacts the following performance measure categories:

1. Ohio major industries.
2. Ohio regions and communities.
3. Various population groups and labor markets.
4. Natural environment.
5. State and local government.

In addition, the State of Ohio should prepare an economic impact study on how the total state budget impacts the growth and health of the Ohio economy.

Some guidance can be drawn from how the States of Kansas and North Carolina approach development program budgeting. The CSU study team has not yet found a state that is currently approaching the budget process as we are recommending. This could be an opportunity for the State of Ohio to set a positive national example in innovative and effective state government finance. As a first step, Kansas and North Carolina officials should be invited to Ohio to learn about their approaches to this economic development budgeting.

The State of Ohio should be expected to budget its annual expenditures on economic development. This budgeted figure should include all direct and indirect expenditures, including foregone state tax revenues.

The State of Ohio should work with local governments in Ohio to follow the state's lead in comprehensively accounting for development-related expenditures. This will guarantee that a truly performance-based economic development system is developed in Ohio.

Recommendation 4: Adopt State Incentive Management System (SIMS) Model

At present, the State of Ohio develops and uses its economic development programs in a fragmented way. While many of these programs are valuable tools promoting economic development, they are not planned, managed, and evaluated in a systematic and integrated fashion. This approach currently prevents the State of Ohio from successfully linking these programs to the state's overall economic development goals and objectives.

The CSU study team recommends that the State of Ohio adopt the State Incentive Management System (SIMS) Model to provide greater integration among the four aspects of incentive program management:

1. Planning and design of incentive programs, including the annual budgeting of all program expenditures. All existing State of Ohio programs should be re-designed to reflect the SIMS model, starting in 1999 and ending in 2000. The Ohio Machinery and Equipment Tax Credit and the Enterprise Zone Program should be state's first priority toward this end. The Enterprise Zone Program's re-authorization should be contingent upon this redesign of the program.

2. Program implementation and management, including the total administration of the state's current programs and the system of procedures and rules guiding the program's future use.

3. Program monitoring and evaluation, including the implementation of the five-part performance measurement system and the new eight-justification system rationalizing state intervention in economic development.

4. Program improvements and adjustments, including the identification and adoption of ongoing improvements to these programs, as identified on a two-year review basis.

The State of Ohio should set priorities for reformatting its economic development programs in line with the SIMS Model. The first priority should be the Enterprise Zone Program, followed by any other programs facing short-term reauthorization consideration.

The Planning Component of the model should involve the following steps:

1. Setting strategic goals and objectives to guide the program.
2. Defining the four components of the SIMS model for the program.
3. Selecting appropriate performance measures to chart progress.
4. Setting maximum and minimum annual budget levels for program.

5. Devise an annual investment strategy, with preferred investment targets, for the program.
6. Creating appropriate information system requirements to support program planning, management, and evaluation.

The Management Component of the model should involve the following steps:

1. Training program staff in future use of the SIMS model.
2. Selecting the most appropriate administrative structure for the program (centralized versus decentralized).
3. Selecting appropriate local and regional financial affiliates for the program.
4. Devising an appropriate portfolio management strategy for the program.
5. Devising appropriate legal agreements and negotiation strategies to use with companies.
6. Devising appropriate marketing and communications strategies to inform companies and others about the program, its requirements, and benefits.

The Monitoring and Evaluation Component should include:

1. Selecting appropriate and practical computer modeling tools to facilitate the evaluation process.
2. Devising specific management performance measures under the 5-layer performance measurement system.
3. Organizing an appropriate evaluation team spanning ODOD, OBM, Taxation, and LBO.
4. Training program staff and local officials in using the new evaluation system.

Ohio officials should work with local government in Ohio in the adoption of this management system for local incentive programs.

Recommendation 5: Create/Implement the Buckeye State Development Fund

The State of Ohio currently operates several economic development programs that provide loans and grants to Ohio businesses. These programs are managed as separate programs and the state currently has difficulty using the programs to achieve its strategic economic development goals. Many of these programs are currently small in scale.

The CSU study team recommends that the State of Ohio form the Buckeye State Development Fund (OBSDF) as an integrated finance entity that provides more flexible public capital to deserving economic development projects. The OBSDF would incorporate the following existing programs:

1. 412 Program
2. 166 Program
3. Ohio Enterprise Bond Fund
4. Roadwork Development Fund

5. Minority Business Development Programs
6. Perhaps others

Under the OBSDF, these programs would be combined into a single overall fund that provides appropriate development financing to companies and communities. Special attention should be given to the needs of small and minority businesses requiring state assistance.

Four financing pools or funds should be set up under OBSDF:

1. Economic Development Infrastructure Pool (EDIP): Provide grants to communities for project infrastructure, including telecommunications and information infrastructure. Future economic growth will depend more upon the state's information superhighways than its roads and sewers.

2. Entrepreneurial Development Fund (EDF): Provide low-interest growth capital for smaller manufacturing and service companies

3. Strategic industry investment fund (SIIF): Provide loan funds to advance Ohio's most important industries and industry clusters.

4. Business expansion capital fund (BECF): Provide loan funds to support general manufacturing and selected service industry expansion.

The State of Ohio should investigate the advantages of managing this Fund on a decentralized basis through Regional Development Funds. Five such region funds should be investigated. Resources from these funds should be expended in a way that is consistent with the goals of the Ohio Productive Growth Initiative and other major state economic development initiatives.

A system to give special points to qualified projects in economically distressed areas should be devised for all four proposed funds or pools.

Recommended investment targets for the four funds/pools are:

1. Manufacturing plants;
2. Industrial distribution facilities;
3. Technology services (e.g., software, data processing, product development, research and testing, others);
4. Corporate headquarters and regional corporate offices; and
5. Back-offices and call centers.

Recommendation 6: Create and Implement the Ohio Quality Jobs Initiative

Most states, including Ohio, define work force development as the top current economic development priority. A qualified work force is paramount to economic competitiveness,

especially as our economy becomes more information and knowledge-based. Work force development is an economic development issue!

This priority encompasses a myriad of needs, including severe skilled worker shortages, existing job upgrading, better long range job development planning, inadequate work force preparedness by minorities and disadvantaged workers, and the lack of coordination between educational institutions and other work force development entities. If these priorities are not met, Ohio will lose future economic expansion opportunities.

Ohio currently suffers from a serious competitive disadvantage caused by its lagging work force in many areas. Many states, such as North Carolina, South Carolina, Tennessee, and others, have moved forward with aggressive work force development initiatives that offer greater job development assistance to employers than that offered by the State of Ohio.

The CSU study team recommends that the State of Ohio adopt the Ohio Quality Jobs Initiative, as an ongoing strategy to help the state compete more effectively for high-quality job creation in a full range of manufacturing and service-related industries. The initiative would work with Ohio employers, institutions, labor organizations, and individuals to institute three new action strategies, which are described below.

What is a "quality job?" We define a quality job as one that possesses the following five characteristics:

1. Higher wage level than statewide average for the industry.
2. Favorable benefits package.
3. Job adds to employer productivity and competitiveness.
4. Favorable career growth/advancement potential.
5. Healthy and safe working conditions.

We recommend that Ohio adopt a "5-Star Job Quality System." The purpose of the system is to allow state and local officials, employers, and workers to develop greater consensus in the future about job quality. The system would allow all of these groups to chart progress in enriching the work experiences of Ohio workers. The five stars correspond to the five criteria used to define a quality job. Further ideas will be provided on how this idea could help Ohio to increase its number of higher quality job opportunities.

These four action strategies are recommended as part of the Ohio Quality Job Initiative:

1. Create a $100 million pool for work force development and training in Ohio's leading strategic industries, including both goods and service-producing industries. (While the Governor's proposal budget calls for an increase in job training funds, we believe that a substantially larger allocation is needed to address this crucial need.)

2. Expand the amount of tax credit available to employers under the Ohio Job Creation Tax Credit Authority for high quality job creation. (See the definition of quality jobs offered above.)
3. Provide additional funding to expand training at colleges and universities for computer literacy and to stimulate entrepreneurship in electronic commerce by Ohio citizens.

$100 Million Job Training Fund

Ohio currently under-invests in human resource development as an economic development strategy. This is especially true in comparison to at least ½ of Ohio's competitor states. While the Administration is proposing an increase in job training funds to augment the Ohio Industrial Jobs Training Program, we believe that the order of magnitude of the proposed increase is to low. Given the size of Ohio's economic and job base, we believe that $100 million is a more realistic number in meeting the work force challenge that exists across the state.

This initiative could be funded by:

1. Current $10 million allocated to OIJT Program
2. Additional $40 million authorized by the Legislature
3. $30 million authorized from Unemployment Insurance Fund
4. $10 million set-aside from Ohio Board of Regents for college and university-based training
5. $10 million set-aside from Ohio Department of Education to support technical training and retraining.

We would suggest a leveraging strategy that encourages at least a 1 to 1 (public to private) ratio and perhaps a 2 to 1 ratio.

The funds should be targeted at manufacturing, distribution, technology services, headquarters and regional offices, back-office and call center jobs in Ohio. The present Ohio Industrial Jobs Training Program serves only manufacturing and distribution companies.

A portion of the fund should be targeted to smaller companies and a portion targeted to development projects in more highly distressed Ohio community locations.

Shortly, we will provide additional details on the Computer Literacy, Electronic Commerce Entrepreneurship, and expanded job creation tax credit proposals.

Recommendation 7: Create and Implement the Ohio Productive Growth Initiative

State and local officials in Ohio have grown increasingly concerned about the spatial course that development follows in regions and communities. Ohio's future growth will be based, in large part, upon productivity gains experienced by private industry and government across the State of Ohio. Ohio's economic development strategy should work

actively at mitigating costly urban sprawl and the unnecessary consumption of rural farmland. Moreover, the state's economic development strategy should encourage Ohio communities and regions to plan future growth, identify measures to ensure that growth occurs in an orderly and cost-effective manner.

The CSU study team recommends that the State of Ohio create and implement the Ohio Productive Growth Initiative as a strategy to achieve growth and development in a more productive and cost-effective manner.

The Initiative would include:

1. Development and adoption of a plan by all state agencies and departments to encourage more productive growth in Ohio over the next decade. This plan should identify appropriate incentives and penalties that would encourage Ohio businesses, governments, nonprofit institutions, and private citizens to engage in practices that lead to more productivity-based growth. The business component of the plan should identify how Ohio firms will increase their productivity in using all types of resources, including land.

2. State business and personal tax credits and deductions for investments that contribute to productive growth in Ohio. (To be defined by the state agency and department plan.)

3. Investigate the feasibility of a state legislative requirement that all Ohio communities and regions adopt and maintain up-to-date land use and comprehensive development plans. Under no circumstances should the State of Ohio dictate the content or form of these plans. But the state should offer proposed guidelines to assist communities and regions in this regard. (This proposal is recommended for further definition and exploration only at this stage. A dozen or more states have this requirement at present. We believe that more will adopt this requirement in the future.)

4. The State of Ohio should develop and implement a new performance measurement system that tracks annual progress in achieving statewide and regional productive growth goals. This performance measurement system should examine the impact of these plans on the State of Ohio on a biennial basis.

The State of Ohio should work with local governments and the private sector in Ohio to accomplish the goals of the Ohio Productive Growth Initiative. This is clearly an initiative that will require the close cooperation of state and local government in Ohio.

Recommendation 8: Create and Implement Ohio Strategic Industry Initiative

At present, Ohio follows an implicit economic development policy that gives greatest attention to developing the state's manufacturing sector. Few would deny that the manufacturing sector is strategically important to Ohio economic development. At the

same time, the Ohio economy must mount a more aggressive and better-defined strategy to diversify its economic base over the next 25 years. Our analysis indicates that Ohio currently gives inadequate attention to the growth of its strategic technology and advanced service sectors.

The CSU study team recommends that the State of Ohio create and implement the Ohio Strategic Industries Initiative (OSII) as a strategy to increase competitiveness of its existing major industry and economic drivers, and as a strategy to work toward the future diversification of the state economy. An in-depth study of best future industry development targets should be undertaken by the State of Ohio. We are pleased that the State of Ohio has already acted on this recommendation and has initiated discussions with possible consultants about a future industry cluster analysis and strategy project.

CSU suggests eight possible industries and clusters that could be explored under this future study:

1. Metalworking and material-working clusters (including products using ferrous and non-ferrous materials, plastics and polymeric materials, advanced ceramics, and composite materials) ;
2. Advanced manufacturing equipment and machinery industries;
3. Transportation equipment manufacturing sector;
4. Information and knowledge-based industries;
5. Advanced medicine and services;
6. Agriculture, natural resources, and environmental cluster; and
7. Development industry cluster (finance, real estate, infrastructure, engineering and architecture).
8. Travel, tourism, entertainment, and leisure cluster

Three action steps should be taken:

1. Align the Thomas Edison Program with the OSII and the strategic sectors that are selected. Each of the target industries or clusters should have a technology competitiveness strategy.

2. Devise statewide cluster or strategic industry development plans for each of the sectors. This would identify the best development opportunities (industries and firms) to be given special development attention. It should also include a strategy to improve the state business climate for each sector. Innovative strategies should be devised to make these sectors more globally competitive through creative and effective technology, financial, trade, and other strategies. Develop resource plans for each strategic sector identifying how the public sector would support innovation and development of the human capital, real estate, technology, and public infrastructure resources needed by these sectors of clusters.

3. The State of Ohio should form an OSII Task Force, comprised of economic development, higher education, science and technology, business (large

corporations and smaller entrepreneurial companies), and local government officials to give shape to this new initiative and its future programs. Special attention should be given to strategies encouraging entrepreneurial development in these sectors.

SECTION V: APPENDICES

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APPENDIX II: PROJECT RESEARCH REPORTS

The Ohio Economic Development Study Project constitutes the single largest research project in Ohio history examining the State of Ohio's major economic development programs. This research examined Ohio economic growth trends, trends in state tax and fiscal performance, individual economic development program performance, and the economic and fiscal impacts of the state's 12 major programs. Recommendations are identified for individual programs, and the for state's overall economic development finance strategy.

Forty-seven technical reports were produced in total during the 18-moth study period. Each report is identified below, along with the author(s) name(s), and a short description of the report's overall purpose and findings.

1. Cleveland State University Proposal and Methodology for the OEDS Project
Donald Iannone, Director, Economic Development Program, CSU Urban Center
Describes the analytic methodology used by the CSU research team in undertaking the OEDS Project. The report identifies what analytic methods and data will be used in the analysis, and what in-house staff and consultants will undertake this research.

2. Ohio's Competitive Position in the Economic Development Marketplace
M. Ross Boyle, Growth Strategies Organization, Inc.
Assesses Ohio's competitive advantages for economic development compared to its competitor states. Examines Ohio's competitiveness from a business location perspective. The analysis shows that Ohio ranks overall about in the middle of the group of states included in the study. Workers Compensation rates and the state's tangible personal property tax are chief among the state's current competitive disadvantages for economic development. Hopefully this study will be helpful to state officials in remedying the second problem.

3. Ohio Economic Growth Report: Analysis of Industry & Geographic Growth Trends Donald Iannone and Dean Prestegaard, CSU Urban Center
Analyzes Ohio economic growth trends over the 1987-2007 period. The report contains industry and geographic area growth forecasts. The report concludes that overall Ohio economic growth will slow in the future as a result of the expected national economic slowdown, and that Ohio's current major manufacturing and service industries will continue to be largely responsible for the state's future growth in the next decade.

4. An Analysis of State Practices in Using Performance-Based Incentives
Shari Garmese, National Council for Urban Economic Development
Presents the results of a national survey of how states are using performance metrics in their economic development incentive programs. The report finds that Ohio's progress in making its economic development programs more performance-based is comparable to that found in other states. In some program areas, such as the Job Creation Tax Credit Program, Ohio is ahead of its competitors in introducing performance metrics to guide future program operation.

5. Assessment of State Revenues: Ohio Enterprise Zone Program
Patricia Byrnes, Jason Palmer, and Lee Walker, OSU Public Management Programs
Examines the expenditure side of the Enterprise Zone Program over the 1993-1997 period. The report determines that Ohio's data on expenditures (costs) is much better than data on revenues (benefits received back).

6. Ohio's Enterprise Zone Program: Fiscal Impact Analysis
Kevin O'Brien and Jack Medley, CSU Urban Center
Examines the correlation between enterprise zone presence and growth of assessed valuation trends at the community level in Ohio. The report concludes that those communities with active enterprise zones had experienced greater assessed valuation growth than a sample of communities not operating enterprise zones. A correlation is observed, but it is not believed that enterprise zone presence is the primary factor in spurring assessed valuation growth.

7. Proposed Economic Indicators Report
Kevin O'Brien and Jack Medley, CSU Urban Center
Presents a series of general economic and fiscal trend indicators as background for the analysis of State of Ohio finances. The results are similar to those seen in the Business Climate Analysis undertaken by Ross Boyle for this project.

8. Ohio Economic Development Study Research Obstacles and Barriers Report
Donald Iannone, CSU Urban Center
Discusses the major obstacles and problems encountered by the research team in undertaking the OEDS Project. The report identifies a myriad of data and methodological problems limiting the extent of analysis that could be conducted on Ohio's economic development programs. Many of these problems were suspected by the research team, but they were confirmed after intensive investigation.

9. Proposed OEDS Advisory Committee Decision-Making Guidelines
Donald Iannone, CSU Urban Center
Identifies possible guidelines the OEDS Committee may consider in its efforts to make ongoing and final decisions about the study research results. The report urges the Committee to attempt to either vote to accept or approve the various research reports as they are produced and delivered to the Committee. The Committee decided it would review reports and provide substantive comments to the research team, but it would prefer not to take action to accept or approve individual research reports.

10. The Ohio Enterprise Zone Program: Results and Analysis Using the TAIM Model

Alan Peters and Peter Fisher, University of Iowa

Presents a set of simulations on the impact of the Enterprise Zone Program on Ohio geographic areas and industry sectors. The analysis finds that Ohio's enterprise zone program is one of the largest found nationally, that its 275 plus local zones vary in their fiscal and economic effects on firms and communities. The simulations indicate that on an overall basis, Ohio's Enterprise Zone Program adds about 10% to the internal rate of return of firms receiving zone benefits. This is considered to be a significant advantage to businesses. Ohio's enterprise zone program falls about in the middle of state rankings of generosity to firms. Michigan's Renaissance Zone Program was found to provide the most generous benefits to firms, although only a limited number of these zones exist in very economically distressed areas in Michigan.

11. State Economic Development Incentives: Overview of the Literature

Terry Buss, Akron University (Suffolk University)

Assesses the academic and practitioner research literature on economic development incentives and state economic development policy. The literature review finds considerable debate and differences in earlier research studies conducted. A clear direction in assessing the impact of incentive programs is not found in earlier research. The review confirmed the research team's belief that most state economic development programs cannot be evaluated in a thorough technical sense because of data, monitoring procedure, and program design problems. In short, the existing research is divergent in its findings and conclusions, but is steadily improving in quality.

12. Ohio's Enterprise Zone Program: Analysis of Existing Program Performance and a New Vision for the Future (Final Program Analysis Report)

Donald Iannone, CSU Urban Center

Presents the overall findings, conclusions, and recommendations of the project team's analysis of the Ohio Enterprise Zone Program (Final Report). The report finds in an overall sense that Ohio's Enterprise Zone Program produces significant benefits and costs to communities using the program. Because it is a locally run program, it does not a major fiscal impact on the State Treasury. In an overall sense, the program provides slightly greater benefits than costs to Ohio communities. The program provides a substantial benefit to firms receiving zone benefits. The report concludes with a recommendation that the state program should be maintained, but it should undergo substantial re-vamping, starting with its goals and the overall vision guiding the use of the program.

13. Washington County Enterprise Zone Case Study

Patrick Metzger, CSU Urban Center

Describes and analyzes the Washington County, Ohio enterprise zone to understand zone operational issues. The report does not present evaluative information about the local zone, since this is not within the scope of the OEDS Project. The report identifies the location, size, and number of agreements with firms entered into by the community. The results of interviews with local zone and community officials are presented.

14. Butler County Enterprise Zone Case Study
Adina Swirski, CSU Urban Center
Describes and analyzes the Butler County, Ohio enterprise zone to understand zone operational issues. The report does not present evaluative information about the local zone, since this is not within the scope of the OEDS Project. The report identifies the location, size, and number of agreements with firms entered into by the community. The results of interviews with local zone and community officials are presented.

15. City of Cleveland Enterprise Zone Case Study
Kirstin Toth, CSU Urban Center
Describes and analyzes the City of Cleveland, Ohio enterprise zone to understand zone operational issues. The report does not present evaluative information about the local zone, since this is not within the scope of the OEDS Project. The report identifies the location, size, and number of agreements with firms entered into by the community. The results of interviews with local zone and community officials are presented.

16. City of Cincinnati Enterprise Zone Case Study
Janine Mackert, CSU Urban Center
Describes and analyzes the City of Cincinnati, Ohio enterprise zone to understand zone operational issues. The report does not present evaluative information about the local zone, since this is not within the scope of the OEDS Project. The report identifies the location, size, and number of agreements with firms entered into by the community. The results of interviews with local zone and community officials are presented.

17. Lake County Enterprise Zone Case Study
Steve Salmi, CSU Urban Center
Describes and analyzes the Lake County, Ohio enterprise zone to understand zone operational issues. The report does not present evaluative information about the local zone, since this is not within the scope of the OEDS Project. The report identifies the location, size, and number of agreements with firms entered into by the community. The results of interviews with local zone and community officials are presented.

18. An Analysis of Employment and Payroll Performance of Five Ohio Enterprise Zones
Jocelyn Fagan, CSU Urban Center
Uses the Ohio ES-202 research database as an independent frame of reference, an analysis was conducted to determine whether job and payroll performance by a sample of enterprise zone-assisted Ohio firms were greater or less than that of Ohio firms not receiving enterprise zone benefits. The analysis indicates that the sample of enterprise zone-assisted firms experienced better job and payroll performance than the sample of firms not receiving enterprise zone assistance. The analysis, while far from conclusive, may suggest that enterprise zone benefits could be a contributing factor in improving firm competitiveness for employment and payroll performance.

19. Ohio Job Creation Tax Credit Program: An Economic Impact Analysis
Ziona Austrian and Adina Swirski, CSU Urban Center
The report presents the results of an analysis of the direct, indirect, and total impact of the program on the Ohio economy. The results show that the Ohio Job Creation Tax Credit Program has a very considerable net positive impact on Ohio employment, income, and gross state product growth. The employment effects of the program are especially positive.

20. Ohio Business Establishments Inter-County Relocation Trends During, 1994-97
Ziona Austrian and Adina Swirski, CSU Urban Center
The report examines the extent to which business relocations occurred between Ohio counties (inter-county) during the 1994-1997 period. The results found that less than 850 inter-county relocations occurred the period. This finding indicates that inter-county business relocations account for a relatively small percentage of total business changes that took place in Ohio during the period. Data did not permit any analysis of the extent to which inter-county business relocations are influenced by the use of state incentive programs. The data did not lend itself to a reliable analysis of intra-county relocations. We suspect that a much larger number of relocations occur between and among communities within the same county, especially within Ohio's largest urban counties.

21. Manufacturing Machinery & Equipment Tax Credit: An Economic Impact Analysis
Ziona Austrian and Adina Swirski, CSU Urban Center
The report describes the results of an economic impact analysis of the Ohio Machinery and Equipment Tax Credit Program. The results indicate that the program has a fairly significant impact on encouraging capital investment by manufacturers, but job creation is only modest.

22. An Interview Assessment of Selected Ohio Business Incentive Programs
Shari Garmese, et al, National Council for Urban Economic Development
The report presents the results of interviews conducted with numerous state and local officials about the performance of Ohio's business incentive programs. In general, the findings reveal that Ohio officials have positive feelings about the programs and they believe the programs are valuable, however serious concerns were raised about the programs by central city officials, who believe that the state should restrict their programs to the most highly distressed urban and rural communities in the state.

23. Ohio Community Reinvestment Area Program: Interview Assessment Report
Shari Garmese, et al, National Council for Urban Economic Development
The report presents the results of interviews conducted with numerous state and local officials about the performance of Ohio's CRA Program. The interviews reflect the need to bring the 'old' and 'new' CRAs into synch. A logical step would be to pattern the program's future performance requirements after the new ones adopt for the Ohio Enterprise Zone Program.

24. Ohio Business Incentive Programs: Their Value to Firms and Their Effects on Ohio's Competitive Position

Alan Peters and Peter Fisher, University of Iowa

This report presents the results of the TAIM analysis conducted on Ohio's tax credit and loan and grant programs. The report finds Ohio's tax burden on new business investment is about average when compared to the other 10 study states, when one includes tax incentives generally available in those states. The analysis finds that Ohio's tax and incentive system is more favorable to traditional basic industries (food, primary metals, etc.). Ohio is less competitive from a tax and incentive perspective for high technology industry development. The latter issue should be addressed as state officials look at the future of incentives in Ohio. On the whole, Ohio's grant and loans programs are a relatively small part of total state expenditures for state incentives.

25. Business Incentive Preference and Use Survey: Analysis and Results

Iryna Sukhorbra and Patrick Metzger, CSU Urban Center

The report describes the results of a survey of nearly 400 Ohio firms (61 firms responded for a 15.2% response rate) concerning their views about Ohio's existing incentive programs. One-half of the sample had used incentives and the other one-half had not. The survey finds in general that Ohio's incentives have a contributing, but not a driving or determining, effect upon business investment and location decisions. This finding is highly consistent with most national surveys attempting to rank the importance of various business location factors. The Ohio survey finds that the state's incentive programs are important to businesses, but they are not considered crucial to business expansion in an overall sense. In general, firms are moderately satisfied with the quality of Ohio incentive programs, however many respondents showed a lack of knowledge about these programs.

26. State of Ohio Economic Development Loans and Grants: Program Analysis

John Brennan, CSU Urban Center

This report examined the budget expenditures for all programs administered by the Ohio Department of Development. This list includes both state and federally funded programs for economic and community development. The analysis indicates the substantial amount of federal money that is administered by ODOD for housing and community assistance-type social programs. While these programs are not included in the OEDS Project scope, it is important to understand the general organizational context in which the Development Department operates.

27. Ohio Joint Economic Development Districts:Trends and Analysis

Billie Geyer and Adina Swirski, CSU Urban Center

The report profiles the Joint Economic Development District (JEDD) Program, which allows localities to cooperate on mutually beneficial economic development projects in Ohio. Only six active JEDDs exist in Ohio, reflecting the low level of program utilization.

28. Ohio Tax Increment Financing Districts: Trends and Analysis
John Brennan and Anjanette Arabian
This report analyzes the use of tax increment financing districts for economic development since 1975. The report finds that commercial and industrial TIFs substantially outnumber those used for residential development across the state. To date, 152 TIF districts have been established in Ohio. Franklin, Hamilton, and Warren counties have by far made the most extensive use of TIFs among Ohio counties.

29. Ohio Industrial Job Training Program: Trends and Analysis
John Brennan and Anjanette Arabian, CSU Urban Center
This report describes the activities for the OIT Program over the 1993-1996 time period. Projects in Ohio's 7 largest counties accounted for more than 45% of the program's total funding over the period.

30. Ohio Minority Business Loan Program: Trends and Analysis
Billie Geyer and Anjanette Arabian, CSU Urban Center
This report describes the Ohio Minority Business Development Program, which provides loans to qualified minority-owned businesses in Ohio. Since KPMG Peat Marwick is undertaking an in-depth analysis of the program, it was not necessary to analyze the program in any depth.

31. Ohio Thomas Edison Program: Trends and Analysis
Ziona Austrian, AdinaSwirsky, and Dean Prestegaard, CSU Urban Center
This report describes the activities of the Edison Program over the 1993-1997 period. The report describes the role of the Edison technology centers, the two federal lab technology transfer centers, and the Edison Incubator Program.

32. An Analysis of Ohio Incentive Agreement Contracts
Adina Swirski, CSU Urban Center
This report examines the legal contracts or agreements executed between the State of Ohio and individual companies using Ohio incentive programs. The report identifies the type and extent to which Ohio's incentive programs contain performance clauses and requirements, ensuring that firms honor their job, payroll, investment, and tax generation goals set in order to receive incentive program benefits. The analysis indicates that the job Creation Tax Credit Program has the most stringent requirements, and that other programs set only modest requirements that firms live up to their performance goals.

33. Community Reinvestment Areas Program Analysis:
Billie Geyer and Adina Swirski
This report describes the Ohio CRA Program and its performance since 1977. Old and new CRAs are examined. Since 1978, 2,662 projects have been undertaken statewide producing an estimated $6.7 billion in investment and 68,500 jobs were created or retained. Franklin, Cuyahoga, Lorain, Miami, Montgomery, Lucas, and Warren counties have made the most extensive use of the CRA Program.

34. Analysis of the Ohio Tangible Personal Property Tax
Jennifer Pae, CSU Urban Center
This report provides an in-depth analysis of Ohio's Tangible Personal tax Program, which is considered to be Ohio's most onerous business tax, and a chief reason why communities make such widespread use of the Enterprise Zone Program. The tax produced $1.4 billion in revenue in 1996. Nearly 72% of the tax's revenues would be used by Ohio schools.

35. Job Creation Tax Credit Program: Direct Revenue Impacts
Jason Palmer, OSU Public Management Programs
This report discusses the direct impacts of the Job Creation Tax Credit Program on the Ohio Treasury. Ziona Austrian and Adina Swirski conducted an economic impact analysis of the program, which shows the larger impact the program has on the Ohio economy.

36. Ohio's Business Incentive Programs: Their Value to Firms and Their Effects on Ohio's Competitive Position (Supplementary Report)
Peter Fisher and Alan Peters, University of Iowa
At the request of the Advisory Committee, a supplemental analysis was conducted of how Ohio would rank against comparison states with the full loading of incentive benefits, and without any incentive benefits. The analysis showed that Ohio's competitive rank increased considerably with the full loading of incentive benefits. Otherwise, Ohio's competitive position is ranked as average.

37. Tax Abatement Development Accounts: Changing Incentives Government Has for Engaging in Tax Abatements Promoting Intra-State Competition for Business Facilities
Edward Hill, CSU Urban Center
This report introduces an experimental concept on how the State of Ohio could possibly overcome standard criticisms of tax abatement deals by structuring special accounts that allow for improved tracking and accounting for tax abatements provided to firms. The account would allow the state to distribute pooled tax revenues repaid to units of government according to the amount of money they directly or indirectly put into the abatement project.

38. Reducing or Eliminating Personal Property Taxes in Ohio: Effects on Ohio's Competitive Position
Alan Peters and Peter Fisher, University of Iowa
This report analyzes the impact of reducing or eliminating Ohio's tangible personal property tax. This additional analysis was requested by the Advisory Committee to provide an understanding of how much a change in the tax would enhance Ohio's competitiveness for economic development. The analysis indicates that a reduction in the tax would produce the benefit of reducing the tax burden of all Ohio manufacturers and not just new investment projects.

39. Ohio Direct Loan (166) and Regional 166 Program Profiles
Jennifer Pae, John Brennan, and Anjanette Arabian, CSU Urban Center
This report examines Ohio's Direct Business Loan Program and its regionally-administered counterpart over the 1993-1996 period. The analysis indicates that 143 projects totaling $248 million in loan investments were generated by the Statewide 166 Loan Program over the period. Meanwhile, the Regional Loan Program served an additional 144 smaller projects, generating nearly $25 million in loan investments.

40. Business Development (412) Account Program Profile
Jennifer Pae, John Brennan, Anjanette Arabian
This report examines the 412 infrastructure grant program for the 1993-1996 time period. The program assisted 150 projects, and it had total grant investments of nearly $36 million over the period.

41. Ohio Enterprise Bond Program Profile
Jennifer Pae, John Brennan, Anjanette Arabian
This report examines trends in the Ohio Enterprise Bond Program over the 1993-1996 period. The program served 20 projects, and it had total bond investments of nearly $100 million over the period.

42. An Assessment of the Ohio Roadwork Development Program
John Brennan and Adina Swirski
This report examines available data on the Roadwork Development Program's operations. It identifies major trends in the program's use, and identifies key issues to be addressed in the future.

43. Analysis of Economic Development Financing Programs Administered by the Ohio Department of Development
John Brennan, Anjanette Arabian and Adina Swirski, CSU Urban Center
This report provides an assessment of the major economic development funding programs administered by the Ohio Department of Development. The analysis is intended to give an overall summary of state-appropriated programs that are managed by the Development Department. Many of these programs were not included in the OEDS project scope.

44. Tax Expenditure Reporting in Ohio
Kevin O'Brien and Anjanette Arabian
This report examines Ohio's tax expenditure budget, and its overall role in state finances. The analysis examines the various sources of expenditures and their estimated amounts. The report points to the need for greater future attention to what type and how much tax revenue the State of Ohio gives up each year.

45. An Analysis of Ohio's Fiscal Alternatives for the State of Ohio
Ned Hill and Kevin O'Brien, CSU Urban Center
Report analyzes Ohio's tax base and identifies various options for addressing business tax competitiveness problems. Discusses some alternative tax policy approaches to provide greater equity for existing business taxpayers.

46. Summary Report on the TAIM Analysis of Ohio's Economic Development Programs
Peter Fisher and Alan Peters, University of Iowa
The report summarizes the large amount of analysis contained in earlier working reports prepared by Peters and Fisher for the study project. This report provides a summary of the team's analysis of individual programs, incentives versus tax policy change trade-offs and other issues.

47. An Assessment of the Costs, Benefits, and Overall Impacts of the State of Ohio's Economic Development Incentive Programs (PROJECT FINAL REPORT)
Donald Iannone, CSU Urban Center
This is the final report of the Ohio Economic Development Study Project. This 325-page report presents the major findings, conclusions, and recommendations of the research investigations conducted over the past 20 months. This report will be the main report distributed on the overall project findings, conclusions, and recommendations.

APPENDIX III: HISTORY OF STATE OF OHIO ECONOMIC DEVELOPMENT EFFORTS AND A LOOK AT THE STATE'S CURRENT STRATEGY

Purpose

This chapter provides an overview of Ohio's current and past economic development strategies. Key elements of this strategy are discussed, along with a short history of state government's role in economic development over the last 3½ decades. This history is, in large part, the story of how the State of Ohio has adjusted to major economic changes through new public policy directions and innovations introduced during the last four Ohio Governors and their administrations. State economic development policy and strategy has changed significantly over this time period. More changes are ahead as Ohio prepares itself for new challenges and opportunities. Each of Ohio's Governors has brand a different brand of political leadership and different strains of economic policy to their jobs.

James A. Rhodes Administration

James Rhodes served four terms as Ohio Governor (1963-1971, and 1974-1983). Rhodes was Ohio's longest standing Governor. Like many states, Ohio launched its first formal statewide economic development program in the 1960s. This was a time of favorable national economic growth, and many companies were busy looking for new plant locations. It also marked the beginning of widespread attention by state governments to economic development. The Ohio Department of Economic and Community Development, a new department of state government, was formed under the first administration of then-Governor James A. Rhodes. Rhodes ran four successful gubernatorial campaigns focused on the issue of "Jobs for Ohioans."

The "Rhodes Raiders," a select group of economic developers working for Ohio chambers of commerce, utility companies, and railroads, were known throughout the country as one of the most aggressive economic development groups anywhere. The group assisted Rhodes in positioning Ohio as the best location in the Nation for new industry investment. New business recruitment and marketing were the top priorities of the state's economic development strategy during this period. Rhodes played a very active and visible personal role in economic development. His sincere, "let's do business" attitude, was very popular among business executives.

A limited number of economic development incentive programs were available in Ohio at that time. The Ohio Impacted Cities Act allowed tax abatement to firms in Community Reinvestment Areas (CRAs). The tax-free industrial revenue bond (IRB) was used at the state and local levels as a financing tool for business expansion. The Department of Economic and Community Development offered site selection technical assistance and limited grants and loans to facilitate industrial investment.

Ohio experienced considerable economic development success during those two decades, leading the Nation in new business locations for several years. The state's recruitment strategy was the right approach for the time. The Rhodes' legacy ended on a positive note with the recruitment of the first major Japanese transplant to Ohio, the Honda Motor Manufacturing Company in 1978. This single project did more to raise international economic consciousness in Ohio than any other single event or development during that era. Jim Rhodes will go down in history as Ohio's "Jobs" Governor.

John J. Gilligan Administration

John Gilligan served one term as Ohio Governor (1971-1974). Gilligan brought by far the most intellectually based approach to economic development to the State of Ohio. Gilligan was concerned about stimulating growth in Ohio's diverse economic regions, and balancing the growth of existing and new incoming industry. The Department of Economic and Community Development increased its focus on encouraging selective growth in Ohio through target industry development. The state gave attention to industry targeting in its programs for existing and new industries.

The Gilligan Administration's economic development effort saw increased attention to research to guide state marketing strategies. Economic modeling and forecasting gained attention in the state capital as this Administration endeavored to provide a greater underlying strategy for statewide economic development than was seen in Jim Rhodes' first two terms. The DECD believed that Ohio's sources of economic growth were changing, and that state government needed to play a direct role in finding the best future opportunities amidst this sea of economic change.

Some of the technology-oriented initiatives that developed later during the Celeste Administration had their genesis during Gilligan's time as Governor. Gilligan endeavored, maybe more so than other Ohio Governors, to devise and follow a rationally planned approach to economic development, which may be considered as the defining feature or theme of his approach to economic development.

Richard F. Celeste Administration

Economic times changed markedly in the late 1970s and early 1980s as Ohio entered the age of international competition, industry restructuring, and rapidly changing technology. In 1982, Richard F. Celeste became Ohio's 64th governor. Richard F. Celeste served two terms as Ohio Governor. Celeste inherited a declining economic climate in Ohio and one that turned southward nationwide.

These new economic priorities called for new economic policy ideas, which Celeste brought to Columbus. In 1982, the Ohio Department of Development (ODOD) was formed, building upon its predecessor, the Department of Economic and Community Development (DECD). Business recruitment took a back seat to intensive assistance to existing companies with technology modernization and work force retraining. Because of rising economic problems in many Ohio urban and rural communities, greater attention

was given to combating poverty and economic distress. A new generation of economic development incentives was developed by ODOD, including the Enterprise Zone Program, and many of the state's current business loan and grant programs.

Celeste believed that Ohio needed an economic competitiveness strategy; one that focused on regaining manufacturing competitiveness, meeting the challenges of the global economy, and diversifying Ohio's economic base through entrepreneurship and technological innovation. The Ohio Thomas Edison Program was established as a centerpiece for Celeste's new strategy for Ohio. Target industry development programs focused on both growing and declining industries Special attention was given to the mining, steel, and other old-line industries, which have deep roots in Ohio economic history. Celeste also created new industry initiatives focused on emerging technology industries. The early international groundwork laid by former Governor Rhodes was built upon by Celeste in a strategic fashion with expanded international offices and a special program emphasis on Japanese business recruitment. Dick Celeste will go down in history as Ohio's "Technology and Economic Strategy" Governor.

George V. Voinovich Administration

In 1990, the gubernatorial baton was passed to George V. Voinovich, the former longstanding Mayor of Cleveland. Voinovich served two terms as Ohio Governor. George Voinovich entered office during favorable economic times, which quickly turned sour when a recession hit the nation. Voinovich's desire for a service-oriented state government permeated his approach to economic development.

One of Voinovich's first moves was to regionalize the Ohio Department of Development's services through the creation of 12 regional offices established across Ohio. The offices' primary role was to promote coordination of economic development within Ohio regions, and to expedite business assistance efforts to local and out-of-state firms considering an investment in Ohio. In contrast to the more strategic planning-oriented Celeste, Voinovich was more prone to practical service innovations. His Operations Improvement Task Force identified hundreds of areas in which the efficiency and effectiveness of state government could be improved, including the Ohio Department of Development, which was an unwieldy maze of diverse incentive and assistance programs for business. Voinovich worked to convert the ODOD into a "one-stop center for business assistance." He gave special attention to helping businesses save money by saving time in dealing with government agencies.

Voinovich's principal concern was the health and competitiveness of existing Ohio industries and companies, but new industry recruitment received a fair of amount of attention by his Administration. In large part, Voinovich took a broad view of economic opportunity and did not concentrate to any significant degree on special services to target industries. Voinovich was fundamentally concerned about improving Ohio's business climate and using these improvements as a basis for future growth and development.

Voinovich worked to improve the Bureau of Workers Compensation, long viewed as a major impediment to business investment in Ohio. Through the Ohio Commission of Tax and the Economy, Voinovich hoped to achieve some major business tax reforms that would increase Ohio economic competitiveness. Due to larger surrounding fiscal problems, as well as the lack of political will, these reforms failed to materialize during Voinovich's two terms. These issues are, in part, the rationale for this current study focused making Ohio more competitive through performance-based economic development programs.

While Voinovich continued many of the earlier programs established in ODOD, he also created his own generation of tools to help Ohio compete for new businesses and jobs. A series of new tax credit programs were introduced in response to neighboring state competition. These programs included the Ohio Job Creation Tax Credit Authority, the Manufacturing and Equipment Tax Credit, the Research and Development Tax Credit, and the Export Tax Credit. All were designed to reward Ohio businesses for investing in Ohio, and for keeping and creating jobs in the state. Marketing efforts were re-focused in line with promising business investment prospects. Special attention was given to distressed Ohio regions, especially communities in Appalachian counties. To the extent that technological innovation gave rise to useful new service innovations to businesses, Voinovich favored technological innovation as an economic development strategy. George Voinovich is likely to go down in history as Ohio's "Quality Service to Business" Governor.

Robert Taft Administration and the Next Generation

The Robert Taft Administration enters office at a time of favorable national economic growth, but also a time of major worldwide economic change, with slumping Asian and Russian economies and transitioning European economies. Ohio economic growth is slowing, along with growth in many other Midwestern states.

The Taft Administration faces the challenge of investing in and fostering new economic growth, while meeting other demanding priorities related to educational and welfare reform, and a host of other needs. State government will likely end the 1990s in favorable fiscal health, which was not the case as the state entered this decade. Talk of individual and business tax cuts are in the air, yet several unmet Ohio community needs exist in the areas of infrastructure, schools, and other areas of concern. The question is what is the best economic development policy for the new Governor? This report hopefully will be a valuable source of input on appropriate future state economic development policy directions for Ohio.

Governor Taft has inherited a large arsenal of economic development programs and initiatives started by previous administrations. Mounting pressure to improve the state business tax policy climate has heightened. The earlier Ohio Tax Commission Study and this current study give impetus to making changes in how Ohio taxes its business citizens. Managing state economic development programs with greater policy and performance goal clarity is a growing priority. This current study urges immediate

attention to these issues. The fundamental thesis of this study is that the totality of state government should be seen as strategic actor in the rapidly changing Ohio economy. The State of Ohio spends approximately $36 billion annually on a host of services and investments. In this respect, this report urges the new Governor to think in a more seamless fashion about how state government performance effects the growth and development of the statewide economy and its component regional economies.

In this context, a comprehensive state development budget that spans various state agencies, departments, and bureaus could prove a useful tool for improving how state government operations impact and shape future economic growth prospects. This suggests that the organization for economic development within state government must change. This new organizational structure must go far beyond the services and financing provided by the Ohio Department of Development. It must also include the Departments of Transportation, Natural Resources, Taxation, and Commerce, the Bureau of Workers of Compensation, the Office of Budget and Management, the Board of Regents, Bureau of Employment Services, the Ohio General Assembly, and even some parts of the Ohio court system that adjudicates on business legal issues.

The concept of administrative "cabinet clusters" was employed to some degree by both the Celeste and Voinovich Administrations as a strategy to deal with inter-departmental issues and priorities. This concept, linked to a comprehensive state development budget, could be a powerful basis for the state's next generation economic strategy.

APPENDIX IV: REPORT FIGURES

APPENDIX V: REPORT TABLES

ENDNOTES

[1]Source: Pine, B. Joseph, and Gilmore, James H., *The Experience Economy—Work is Theatre and Every Business is a Stage*, Harvard Business School Press, 1999.

[2] The project's mission statement and goals are drawn directly from the official project contract and work plan, which have guided our work effort over the past 18 months.

[3] Source: Council of State Governments, *State Business Incentives: Trends and Options for the Future,* Lexington, KY, 1997.

[4] Source: Council of State Governments, Midwestern Office, In Search of Growth: Business Incentives in the Midwestern States, Chicago, IL, December 1998.

[5] Source: Federal Reserve Bank, December 1998.

[6] Source: Regional Financial Associates, December 1998.

[7] Source: Council of State Governments, Midwestern Office, Chicago, IL, December 1998.

[8] This review was prepared by Dr. Terry Buss, Professor of Economics and Public Administration at Suffolk University. Dr. Buss was formerly with the University of Akron and Youngstown State University.

[9] This is a new definition of economic development, which we believe captures the core public policy issues and the stakeholder interests that serve as the focus of local and state economic development.

[10] Council of State Governments, *State Business Incentives: Trends and Options for the Future,* Washington, DC, 1997.

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[14] Iannone, Donald, and McKee, Daryl, *Marketing Communities in the Information Age*, American Economic Development Council, Rosemont, IL, 1998.

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[19] Nexus Associates, *Performance Measurement and Evaluation of Economic Development Initiatives: An Annotated Bibliography,* for Economic Development Administration, US Dept. of Commerce, July 1997.

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[21] Poole, Kenneth, Erickcek, George, and Iannone, Donald, *Assessing Methods for Evaluating Incentives: Practical Tools and Techniques,* Economic Development Administration, United States Department of Commerce, Washington, DC.

[22] Growth Strategies Organization, an economic development consulting firm in Vail, CO, found that nearly two-thirds of all economic development organizations nationally use some form of industry target to identify future business growth prospects *1998 Economic Development Organization Survey,* December 1998.

[23] CSU Urban Center, *Regional Economic Development Strategy Initiative: Cluster Analysis*, April 1998, for Greater Cleveland Growth Association and Cleveland Tomorrow, Inc.

[24] Based upon interviews with the Office of Strategic Research in the Ohio Department of Development.

[25] Based upon CSU Urban Center assessments and forecasts for the next decade (1999-2008).

[26] Based upon interviews with the Office of Strategic Research in the Ohio Department of Development.

[27] Based upon CSU Urban Center assessments and forecasts for the next decade (1999-2008).

[28] Source: Bahl, Roy, Editor, *Taxation and Economic Development: A Blueprint for Tax Reform in Ohio,* Battelle Press, Columbus, OH: 1996.

[29] Source: Ohio Department of Taxation, *1997 Annual Report*, Columbus, OH.

[30] National League of Cities, National Conference of State Legislatures, and National Governors Association, *Is the New Global Economy Leaving State-Local Tax Structures Behind?* 1998.

[31] Data available to CSU only for these four states. Each state's index is pegged to the US average, US = 100 for each year depicted.

[32] Source: Boyle, Ross, M., Growth Strategies Organization, Inc., *Ohio's Competitive Position in the Economic Development Marketplace*, Report to OEDS Advisory Committee, December 3, 1997.

[33] Source: Based upon *Ohio Economic Growth Trend Report*, Iannone, Donald, and Prestegaard, Dean, CSU Urban Center report for OEDS Project, April 1998.

[34] Our analysis does not measure the differences in these other costs of doing business and so does not measure the firm's *overall* return on investment in various locations; our focus is exclusively on the effects of differences in tax systems and tax rates, and on the value to the firm of loan and grant programs.

[35] See the authors' enterprise zone report, pages 25-31.

[36] Buss, Terry, F., *State Economic Development Incentives: An Overview of the Literature*, OEDS Technical Report, October 1997.

[37] For more insights into this era of state policy action, please see: Marianne Clark's *Revitalizing State Economies*, National Governors Association, 1986, and David Osborne's *Laboratories of Democracy: A New Breed of Governor Creates Models of National Growth*, Harvard Business School Press, 1988.

[38] Buss, Terry, *A Review of the Economic Development Research Literature for the Ohio Economic Development Study Project*, October 1997.

[39] Source: Chi, Keon, and Leatherby, D., *State Business Incentives: Trends and Options for the Future*, Council of State Government, 1997.

[40] Bahl, Roy, *Taxation and Economic Development: A Blueprint for Tax Reform in Ohio*, Battelle Press, Columbus, 1996.

[41] Survey conducted by Kirstin Toth and Jackie Holland, CSU Urban Center, Fall 1997.

[42] Study conducted by Jocelyn Fagan, CSU Urban Center, February 1998.

[43] Study conducted by Alan Peters and Peter Fisher from the University of Iowa, Fall 1997.

[44] Study conducted by Kevin O'Brien, Jack Medley, and other CSU Urban Center staff, February 1998.

[45] O'Brien, et al, *Ohio's Enterprise Zone Program: Fiscal Impact Analysis*, April 22, 1998.

[46] The current federal minimum wage is $5.15. Participating businesses must therefore have a minimum wage of $7.73.

[47]It should be noted that all new committed jobs are assumed to be a result of the JCTC program. The program's legislation, however, simply requires that the tax credit be a major factor in a firm's decision to go forward with a project. While this report assumes that all job creation commitments were in fact induced by JCTC, no data is currently available on the number of jobs that were actually caused by the program.

[48] Due to a three-year lag in data reporting, data was made available for the years 1993 through 1996. Data for the years 1997 and later will not be available until 2000.

[49] Due to a three-year lag in data reporting, data was made available for the years 1993 through 1996. Data for the years 1997 and later will not be available until 2000.

[50] Due to a three year lag in data reporting, data was made available for the years 1993 through 1996. Data for the years 1997 and later will not be available until 2000.

[51] For clarity and consistency, program will be used to refer to the entire Ohio Edison Technology Program. Although the Edison Technology Centers are formally referred to as a 'program', it will be referred to here as an 'initiative' since it is part of the overall program.